The Economist

Iraq's oil up for grabs
PAGE 67
Copyright, Disney and the mouse
PAGE 67
The danger of deflation
PAGES 12 AND 63
A SURVEY OF GREECE
AFTER PAGE 58

OCTOBER 12TH-18TH 2002

The war about the war

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

GLOBAL AGENDA

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Advertisement

Print Edition October 12th 2002

The war about the war
Charges of hypocrisy are unfounded ... More on this week's lead article

The world this week

Politics this week
Business this week

Leaders

Iraq
The war about the war

Private firms in China
Set them free

Debt and deflation
Till debt us do part

The European Union
Ever droopier union

Congo
At last, a sort of peace to keep

Northern Ireland
The peace deal crumbles

Letters

On migration, intellectual property, paracetamol, scientific theory, mobile telecoms, smells, female politicians, drugs, Lula

Special Report

Iraq, Israel and the United Nations
Double standards

Resolution 242 (1967)

Post-1967 UN resolutions relating to Israel-Palestine

United States

America against Iraq
The gathering storm

The president and the dockers
George Bush, union-basher?

Peace protests
Thank goodness for war

Policing America
Bratton's back

Gun control
A sniper in the suburbs

The South Dakota Senate race
Oh no, don't ask me to choose

A new look at Custer
Too dashing a soldier, but no villain

Lexington
Paul Wellstone's appeal

The Americas

Divided in Venezuela
A tragic and dangerous stalemate

Trinidad's election
A mandate for Manning

Brazil's presidential election
Sweating into a second round

Asia

The Pearl river delta
A new workshop of the world

Kashmir and Pakistan
One election that wasn't rigged

China and North Korea
Don't get too capitalist, comrade

America and North Korea
Parting ways

Previous print editions
Oct 5th 2002
Sep 28th 2002
Sep 21st 2002
Sep 14th 2002
Sep 7th 2002
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

A survey of Greece

Prometheus unbound
A great lurch forward
The war of the olive branches
Roll out the welcome mat
Good neighbours
Blowing hot and cold
Enduring virtues
The road to Marathon
A bit more neocracy, please
Acknowledgments and sources
Offer to readers

Business

Iraq's oil
Saddam's charm offensive

American telecoms
Out of the ashes

Regulating food and drugs
Safe and effective?

Italy's car industry
Fiat redux

Japanese business
Welcome to the 1990s

China's private sector
Not in the club

Ranking business schools
The numbers game

Medical confectionery
Business bubbles

Face value
Free Mickey Mouse

Correction

Finance & Economics

The deflation danger
Of debt, deflation and denial

Wall Street governance
Regulate thyself

The Securities and Exchange Commission
Pitt's nightmare

Japan's economy
Still messy

Japan's stockmarket
Embattled

Mexican banks
Won't lend

Commerzbank
Panic game

Stockmarket volatility
Revving up

Economics focus
All too human

Afghanistan's opium
A bumper crop

Nepal
A royal coup?

Middle East & Africa

Rwanda withdraws from Congo
A long step towards peace

Hamas and its aims
Thriving in the flames

Yemen and the war on terrorism
Who dunnit?

South African politics
Crossing the floor

Europe

Russia and Georgia
Smiles all round—till the next time

Enlarging the European Union
Yes; yes, but; and don't call us

Ireland and the Nice Treaty
If the Irish say no

Divided Cyprus
And likely to stay divided

Italy's centre-left
Falling apart

Germany's new cabinet
Super-job for a super-minister

Higher realms
A saint for Opus Dei

Charlemagne
The cross-Channel rivals

Britain

Northern Ireland
Storm over Stormont

British manufacturing
Blame the bosses

Taxis
Free riders

Adventure holidays
Fancy a bad time?

Urban regeneration
A vision among the pits

Health reform
Flimsy foundations

Congestion
Jam, Darling?

Bagehot
Tonier than thou

Articles flagged with this icon are printed only in the British edition of *The Economist*

Science & Technology

The science of autumn
Getting reddy

The science of spring
A youthful blush

The 2002 Nobel prizes
Windows on the world

The Pill
Contracontraception

Books & Arts

Napoleon, Nelson and Wellington
Men of magic

Globalisation
Know your enemy

Architectural biography
A looming figure

New fiction
Making up is never easy to do

Chekhov in London
Uncle Anton and the sisters

Bestsellers in France and Germany
What the world is reading

Obituary

Walter Annenberg

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Portfolio poll

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Government budget balances

Emerging-Market Indicators

Overview

Hardship rating

Economy

Financial markets

Advertisement

Classifieds

Jobs
Governance Fellow on Security and Development (Ref 159)
This is an exciting opportunity to join one of the world's ....

Business / Consumer
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Requests Expressions of Interest for The Development of a New Lignite Mining Facility and Associated New Electric Generating and Transmission

Jobs
Marketing Associate Needed
Marketing Associate Provide analytic support to the Global Product Strategy Group Respo....

Tenders
Republic of Ghana Ministry of Trade, Industry, PSD & PSI - Request for Expression of Interest: Preparation of Competition Bill for Ghana

Jobs
Regional Director Balkans
Job Profile Our Regional Director Balkans (based in Tirana), leads and mobil....

Sponsors' feature About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Oct 10th 2002
From The Economist print edition

The gathering storm

President George Bush laid out his **case for war** against Saddam Hussein on television. He called for urgent measures against Iraq, which could help terrorists to strike western targets “on any given day”, although Mr Bush said military action was not “imminent or inevitable”. Congress was expected to pass a resolution supporting such action. But George Tenet, the head of the CIA, meanwhile told Congress that the likelihood of an Iraqi attack on America was small at present.

See article: Bush rallies America

On America's west coast **ports reopened** after a management lockout since September 29th caused by a dispute with the dockers' union. Mr Bush invoked the Taft-Hartley Act to impose an 80-day cooling-off period.

Reuters

See article: The lockout ends

Americans are **getting fatter**: a new survey says that almost two-thirds of them are either overweight or obese.

At least six people were killed and two wounded by an **unidentified sniper** in Maryland, Virginia and Washington, DC. One of the wounded was a 13-year-old boy on his way to school.

See article: A sniper terrorises Washington's suburbs

Left in Brazil

Brazil's presidential election will go to a run-off ballot, involving Luiz Inacio Lula da Silva of the left-wing Workers' Party and Jose Serra, the government candidate. Mr da Silva is the strong favourite: he won 46.4% of the vote, twice as much as Mr Serra, and two defeated candidates gave him their backing.

See article: Brazil's presidential run-off

Venezuela's president, Hugo Chavez, claimed to have uncovered another coup plot against him. The opposition went ahead with plans for a mass demonstration, followed perhaps by a general strike, aimed at forcing Mr Chavez to resign.

See article: Venezuela's polarised politics

The third general election in two years broke a political deadlock between **Trinidad's** two main parties. Patrick Manning, the acting prime minister, and his mainly Afro-Trinidadian Peoples' National Movement, won a parliamentary majority.

AP

See article: Trinidad's decisive election

Canada's deputy prime minister, John Manley, chose the start of a 12-day visit by Britain's Queen Elizabeth to say that his country should become a republic.

Eastern approachers

The European Commission gave its blessing to ten countries **joining the EU** if negotiations go smoothly) in 2004. Two more—Bulgaria and Romania—might be able to join in 2007, it said. But it offered no date for negotiations with Turkey, a long-time would-be candidate, even to start.

See article: Enlarging the European Union

France insisted that it would stick to spending plans that threatened to undermine the EU's stability and growth pact. The other 11 euro-area countries agreed that those with the heaviest deficits (France, Germany, Italy and Portugal) should cut these by half a percentage point a year starting in 2003. France refused to comply.

See article: A club worth joining?

The peace process in **Northern Ireland** faced a crisis, after a police raid found that an official of Sinn Fein—part of the multi-party government there—had secretly photocopied documents holding details both of potential terrorist targets and of communications between the province's Unionist first minister and British and Irish ministers, including Tony Blair.

See article: The crisis in Northern Ireland's peace process

Germany named Wolfgang Clement, premier of North-Rhine-Westphalia, to head a new super-ministry of economy and employment.

See article: Germany's new super-minister of the economy

In Rome, before an estimated 300,000 people, Pope John Paul II made a saint of Josemaria Escriva de Balaguer, Spanish founder of **Opus Dei**, a mainly lay order of Catholics. The organisation is still suspect to Spanish anti-clericals for the way several members served in the 1950s and 1960s cabinets of the dictator Francisco Franco.

See article: Opus Dei's new saint

General's election?

Pakistan held its first general election since a military coup in 1999. Although critics claimed General Pervez Musharraf's constitutional changes and electoral restrictions would ensure the military's continued grip on power, a tight race was predicted. The general is staying on as president.

Elections in Indian-administered **Kashmir** ended. International observers deemed the poll fair, but not free, because of widespread violence. More than 800 people died during the election.

AP

See article: After the vote

Australia announced that it will create the world's largest marine park between its south-west coast and the northern coast of Antarctica in order to protect one of the world's most unspoiled environments from exploitation.

Sri Lanka's peace process looked threatened after paramilitary police in the eastern Ampara district killed four people and injured 15 others in what they claimed was a Tamil Tiger attack. It followed an alleged attack on a rebel leader earlier in the day.

An American Islamist arrested in **Malaysia** lost his attempt to fight deportation to the United States. He faces charges of belonging to a terrorist cell in Portland, Oregon, and of conspiring to contribute services to the Taliban and al-Qaeda.

Peace in sight

Rwanda pulled all its troops out of **Congo**. Though banditry and rebel fighting continue, the departure of nearly all foreign armies allows hope that Congo's four-year war is at an end.

See article: Rwandan troops leave Congo

Talks in **Côte d'Ivoire**, organised by other West African countries, failed to bring about a ceasefire. The rebels, who still control Bouaké, the second city, rejected a call by President Laurent Gbagbo to disarm ahead of negotiations.

The **Israeli** army, pursuing Hamas militants, raided Khan Yunis, a town in southern Gaza, killing 16 people. In separate incidents in Gaza, three Palestinian children were killed. A suicide bomber killed himself and an Israeli woman in central Israel.

See article: Hamas and its aims

A French oil tanker, the *Limburg*, was crippled by an explosion off the south-east coast of **Yemen**. One member of the crew was killed. His colleagues claim that the tanker was rammed by a small craft packed with explosives. The French and the Yemenis are investigating. Meanwhile, an American marine was shot dead in **Kuwait** in what was thought to be a terrorist attack.

See article: In peril at sea

Driss Jettou, Morocco's interior minister and a technocrat, was appointed prime minister by the king.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

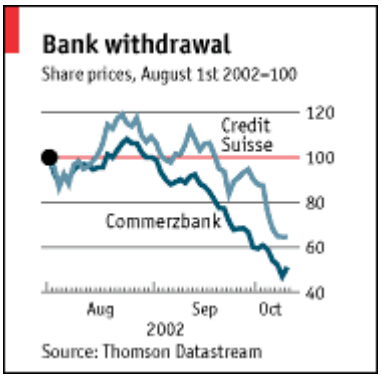
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Business this week

Oct 10th 2002
From The Economist print edition

Besieged banks



Europe's banks had a torrid week. **Commerzbank** rejected allegations of a liquidity crisis after heavy derivatives losses. Even so, worries about bad loans and a slump in the value of its equity holdings caused Standard & Poor's to cut the German bank's credit rating (as well as those of HypoVereinsbank and Dresdner). Commerzbank's shares crumbled, and other European banks suffered similarly.

See article: European banks

Shares in **Credit Suisse** continued to fall. Rumours circulated that Martin Ebner, a Swiss financier with troubles of his own, was offloading his stake of some 5%. The Swiss bank's recent profit warning, prompted partly by problems at CSFB, its investment-banking arm, led CSFB to announce more lay-offs; 1,750 this time, some 7% of its workforce.

Wall Street also faces tough times. **J.P. Morgan Chase** was said to have plans to get rid of up to 4,000 investment bankers; **Merrill Lynch** was said to be close to axing more employees, on top of 15,000 that it has let go already this year.

Bank of Ireland's merger approach to Abbey National boosted the British bank's shares but met a swift rebuff. Not in the interests of shareholders, said Abbey National. They may not agree. The bank's shares have fallen by half since the start of the year. The Irish bank said it would pursue its planned merger anyway.

Deutsche Bank said that it would sell a quarter of its 40% stake in Axel Springer. The German bank has gained control of the shares because of the bankruptcy of Kirch Group; the stake in the German publisher had been security for a *euro*720m ($710m) loan.

The Italian jobless

Fiat unveiled plans to cope with hefty losses at its car-making arm. It said that 8,100 jobs would go, mainly on a temporary but long-term basis, with the government footing most of the bill. Workers feared that this means permanent losses. The embattled car maker tried to quash speculation that it was preparing for a takeover by General Motors even before 2004, when Fiat can exercise a put option.

See article: Fiat's agony

The Italian government announced a scheme to certify **Italian restaurants** around the world, ensuring genuine Italian menus served by Italians—complete, presumably, with oversized pepper mills and checked table cloths. Counterfeit Italian restaurants are thought to make profits of some *euro*27 billion ($26.6 billion) a year. A pilot scheme will be launched in Belgium next year.

European antitrust investigators have raided the oil giant **ExxonMobil** and **Bayer**, a German chemicals group, in pursuit of evidence of price-fixing. The commission has been stepping up its fight against cartels.

Pitt's oversight

Harvey Pitt, chairman of the **Securities and Exchange Commission**, ran into more trouble. He and his fellow commissioners are at odds over the selection of five members to run a public accounting oversight board, due to start work at the end of the month. Mr Pitt also appeared to soften an insistence that all foreign companies listed in America would be bound by the stricter corporate-governance rules of the recent Sarbanes-Oxley Act.

See article: Harvey Pitt

Buford Yates, an executive at **WorldCom**, pleaded guilty to cooking the books in a massive accounting scandal that inflated the company's profits by some $7 billion. Only following orders, insisted Mr Yates, the second underling to admit his involvement. More guilty pleas are expected as lawyers prosecute their way up the chain of command—but to what level?

Deutsche Telekom's search for a chief executive, a vacancy caused by the departure of Ron Sommer in July, hit a snag. Klaus Zumwinkel, boss of Deutsche Post and long considered a likely front-runner for the post, said *nein* to the move, perhaps unwilling to try his hand at tackling DT's massive debts and burgeoning losses.

Mine, all mine

South Africa's government released a black-empowerment charter for the mining industry, setting a target of 15% black ownership within five years, rising to 26% in a decade. The industry was relieved that earlier, higher, targets had been abandoned. The government also said it would part-privatise the state telecoms company by March and would educate and encourage black South Africans to buy discounted shares.

Tim Byrne, chief executive of **MyTravel**, got an unexpected long holiday after shareholders forced his exit from the British travel company. A recent profit warning and dividend cut were enough to ensure his place in the departure lounge.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Iraq

The war about the war

Oct 10th 2002
From The Economist print edition

Charges of hypocrisy are unfounded

Get article background

Reuters

WHEN nations go to war, they prefer to do so united, with their consciences clean. That is why, in Ohio this week, George Bush delivered his scariest speech to date about Saddam Hussein, a "murderous tyrant" who "on any given day" might launch an attack on America, like the one al-Qaeda launched on the twin towers just over a year ago. Given the new atmosphere created in America by the atrocities of September 11th, there has never been much doubt that Mr Bush could collect the support of Congress for action to avert a threat described in these terms. From the United Nations, too, have come hints that America might shortly get most of what it wants: a fresh resolution or resolutions from the Security Council, ordering Iraq to yield up its forbidden missiles and weapons of mass destruction (WMD), or face a risk of war.

These are useful steps. Should a war be necessary, one that has the blessing of Congress and a mandate from the Security Council stands a better chance of rallying the support of ordinary people. But Mr Bush should not let himself be beguiled by such institutional successes into believing that he has now won his battle in the wider court of world opinion. He hasn't.

Two kinds of doubt

Millions of people, not only in the Islamic world but in Europe and America as well, look upon the prospect of a second American-led onslaught on Iraq with deep misgivings. To some extent, this arises from a proper fear of the unintended consequences any war might bring. What if a cornered Mr Hussein uses his ghastly poisons? Or if there is slaughter in the streets of Baghdad? Or if Iraq, or the whole Arab world, should simply collapse into chaos—and then turn on America in its humiliation and rage? But many people are equally troubled by something rather different: a feeling, despite all the speechifying from on high, that the whole American case for war is somehow bogus or hypocritical.

One such complaint stems, paradoxically enough, from Mr Bush's decision to seek a fresh mandate from the Security Council instead of acting against Iraq on his own, in accordance with the doctrine of pre-emption sketched out in his new national-security policy. The complaint goes like this. Since you have plainly decided to topple Mr Hussein anyway, no matter what the Security Council decides, why are you bothering to pretend that the war will be fought in order to uphold the UN's authority? Isn't this hypocrisy? And this complaint is frequently fastened by a loose logic to a second one. You accuse Iraq of defying the UN and seeking weapons of mass destruction. But in the meantime you allow Israel, a pampered ally, to ignore the UN and hold on to the nuclear weapons it already has. Isn't this a case of double standards?

Good questions, on the face of it. But they can be answered. Take first the point about the authority of the UN.

Mr Bush does argue that the authority of the Security Council is at stake in Iraq. But he cannot be accused of pretending that this is why he might go to war. In Ohio this week, but also in virtually all his previous speeches, he has

Mr Bush does argue that the

said bluntly that his main reason for being willing to do that is the mortal threat that a WMD-armed Saddam poses to American interests, and in the worst circumstances to America itself. He also says—and where is the inconsistency?—that what has allowed Mr Hussein to pose this threat to America is the Security Council's leniency in having permitted the Iraqi leader to run circles around the disarmament regime it clamped on him after his invasion of his Kuwait. If the council (backed now by a credible American threat of armed action) succeeds in making Mr Hussein hand over his destructive paraphernalia, so much the better; he would no longer pose the same threat. War, says Mr Bush, is neither imminent nor inevitable. But if the Security Council fails, the threat will remain and America will feel obliged in the interests of its own security to deal with it.

authority of the Security Council is at stake in Iraq. But he cannot be accused of pretending that this is why he might go to war

Can such an argument satisfy the war's doubters? Not in a month of Sundays. Many doubters take strong exception to the idea that any nation has the right to go to war alone, except under a UN mandate or in strict self-defence. Applying this principle to Iraq, they would rather allow a dangerous dictator to acquire nuclear weapons, and with them the power to kill millions of people, than allow the Security Council's prerogatives to be sullied or circumvented by the superpower. But those who think this way (*The Economist*, you may have guessed, doesn't) must accuse Mr Bush of error, not hypocrisy. His administration could not have done more to make it clear that it takes precisely the opposite view.

Turn now to Palestine. Isn't it obvious that by occupying the West Bank and Gaza for 35 years, Israel is in no less flagrant violation of the Security Council than Iraq? In point of fact, when you look at the record (see article), it is not obvious at all. After the Gulf war of 1991, the Security Council gave Iraq a set of simple instructions to disarm, pay reparations and so forth. It has not complied. Nothing like that has happened in the Arab-Israeli conflict. After the war of 1967, the Security Council instructed Israel and its neighbours to negotiate a peace. But it offered no detailed blueprint. This process has limped forward in slow and often bloody fits and starts, with both sides making mistakes and disregarding the pleas of the UN. But only a supreme partisan, surveying this century-long conflict, could pile the blame on only one side.

Honest differences, and dishonest ones

None of this is to imply that Mr Bush should not work more urgently to put the missing flesh on his June “vision” of a free Palestine living alongside Israel in borders based on those of 1967. But this is something to do for its own sake, because the wellbeing of Israelis and Palestinians, plus America's own regional interests, demand it, not in order to evade an unsubstantiated charge of hypocrisy. It is easy when hard choices arise to impugn the motives of those you disagree with. But this is a game two can play. Might some of those in the Arab world who complain about “double standards” care rather more about preventing action against Iraq than about seeing justice for the Palestinians? Perish the thought.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

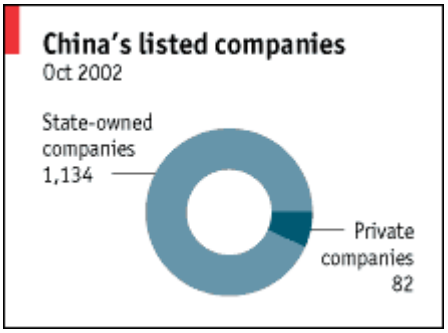
About sponsorship

Private firms in China

Set them free

Oct 10th 2002
From The Economist print edition

Holding back China's private firms holds back China too



OFFICIALLY, it has long been glorious to get rich in China, but both politics and red tape still make it a lot harder than it should be. If you own or run a private firm, it helps to be on good terms with the local Communist Party bosses. The arrest on October 4th of Yang Bin, who is Chinese by birth but Dutch by citizenship and was recently nominated to run a fledgling enterprise zone in North Korea (see article), shows what can happen to those who lack official protection in China. Meanwhile the rise and rise of Zhou Furen, a party-man turned businessman who has been doing his bit to turn around the fortunes of depressed Liaoning province (see article), shows what you can do with the right party credentials.

It is evident, even without prejudging the case of the colourful Mr Yang or questioning the business skills of Mr Zhou, that China will find the best managers for its companies only when it chooses them from the widest possible pool. One way to achieve this would be to throw the party open to all—at present, private businessmen, deemed exploiters still, are supposedly excluded. Jiang Zemin, China's outgoing president, has been trying to rewrite party rules to let them in, against stiff resistance from conservatives. But party connections are only one market distortion in China. What the government really has to do is to end an entire culture of discrimination that favours state-owned companies over private ones.

This discrimination cuts all sorts of ways. For example, some 1,216 companies in China are listed on either the Shanghai or the Shenzhen stock exchanges. But of these, just 82 are privately owned. Another 100 or so are run like private companies, but are collectives in name: so-called “red hats”. The rest are state-owned enterprises (SOEs), listing only a minority of their shares.

Why so few private firms? Because the regulators who grant new listings discriminate against them. Provincial governments, saddled with responsibility for their local SOEs, do all they can to make sure that the regulators, who are wary of allowing too many new issues on to the market at once, give the precious slots to ailing state dinosaurs, rather than to nimbler and fitter private firms. Hence the red hats: smart business types know that by dressing themselves up in collective clothing, they have a better chance of a listing. But for most private firms, the delay can be interminable. Even Mr Zhou's firm, for all his party connections, is still waiting.

Exploit savings instead

There are signs that this is changing. Provincial offices of the China Securities Regulatory Commission are losing powers to the head office in Beijing. Increasingly, firms are finding ways to tap into foreign markets—or the Hong Kong stockmarket. Yet limits on foreign stakes in Chinese firms get in the way. This week it was announced that some limits are to go, but in China there is always plenty of room for backsliding between announcement and execution. A proposal for a new exchange for smaller-sized firms, many of them private ones, is also welcome. But the plan is plagued by bureaucratic in-fighting.

Yet without more changes, China's enormous pool of savings (a whopping 40% of GDP) will remain an under-used resource. For now, China's stockmarkets have an unfortunate tendency to allocate capital to the least efficient users of it, quite the reverse of what a market is supposed to do, and of what China needs.

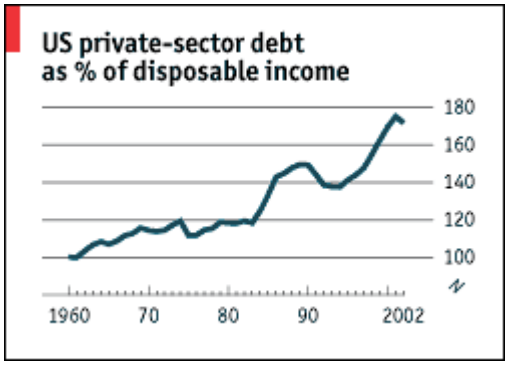
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Debt and deflation

Till debt us do part

Oct 10th 2002
From The Economist print edition

The deadly cocktail of high borrowing and falling prices



"INFLATION rescues firms from the errors of optimism and stupidity." John Kenneth Galbraith's words apply equally to households. Over the past three decades over-indebted companies and individuals have often been bailed out by inflation, which has eroded the real burden of their debt. In the late 1990s, though, optimism and stupidity reached new heights. In America and Europe private-sector debts rose more sharply than ever before in relation to GDP. Too much of this borrowing assumed unrealistic growth in future profits, share prices or incomes. But for the first time in decades, inflation can no longer rescue bosses and consumers from their folly.

High inflation harms growth. But it can sometimes be useful, especially for debtors. It also makes it easier for asset prices to adjust back to sensible values. If the prices of property or shares, against which people have borrowed, rise to unsustainable levels in relation to incomes or profits, their return to equilibrium is less painful if inflation pushes up incomes, rather than house prices, say, having to drop in absolute terms. In a world of near-zero inflation or even deflation there is a far bigger risk that house prices will fall.

Consider Britain's overheating housing market. House-price booms in the 1970s and 1980s turned to bust, with house prices falling by 25% or more in real terms. This was achieved in the high-inflation 1970s with no fall at all in nominal prices. But in the early 1990s average prices fell for four years, albeit by a modest 8% overall. Today, with inflation even lower, a fall in nominal house prices could be a lot bigger.

Even more worrying, some economies may yet follow Japan's into deflation, a state in which the average price level is falling. If growth in America stays below trend, increasing over-capacity will continue to reduce inflation, pushing the economy towards modest deflation. In Germany, where interest rates set by the European Central Bank are too high for its feeble economy, deeper deflation is possible (see article). Deflation and debt do not mix well.

Mortgage debt has been rising particularly rapidly. Indeed, the housing market has helped to support the world economy over the past year. Most dramatic has been the 24% surge in British house prices in the year to September. As house prices have risen, many countries, including America and Britain, have seen record levels of mortgage-equity withdrawal, as owners borrow more against the rising value of their property. This allows consumers to spend more of their apparent wealth on cars, furniture and so on. Through new mortgages as well as refinancing, some home-owners are now borrowing up to 100% of the value of homes. So rapid has been the surge in household debt that despite low interest rates, total mortgage payments are already close to record levels as a share of disposable income in both America and Britain.

Home economics

It is often argued that neither the level of household debt nor the lofty level of house prices need be a problem, so long as interest rates do not rise significantly. With inflation low, any rise looks unlikely in the near future. Typical home-buyers will also find that, for any given real rate of interest, it makes sense to borrow more when inflation is low than when inflation is high. This is because low inflation

flattens the time profile of real debt repayments, making a mortgage more affordable in its early years. This, in turn, could, in theory, justify higher house prices relative to income.

But the ability to repay debt depends not only on the level of interest rates, but also, crucially, on the rate of growth in future incomes. The surge in mortgage debt suggests that consumers are assuming that incomes will continue to rise as fast as in the past, and that house prices too will keep going up. Yet in America and Britain, among other countries, house prices are already close to record levels in relation to average incomes. In a period of deflation, incomes would be likely to fall, and a fall in house prices would then surely follow. But the nominal value of mortgage debts would remain fixed. Home-buyers who have borrowed up to 100% of the value of their properties would then be in trouble, with properties worth less than their mortgages.

Some argue that wage-cuts could not happen, so that incomes would not fall in nominal terms. But companies are up to their neck in debts, and will be under huge pressure to cut costs in a deflationary environment. If firms cannot cut wages, then as falling prices squeeze profits, they will cut jobs. Debt deflation is an especially big risk in Germany, where corporate debts are dangerously large. How long will it be before even Germans wonder if inflation, their old foe, was really so bad? Yet that is the wrong lesson. The correct one is that, if you borrow recklessly, do not expect any bail-out.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The European Union

Ever droopier union

Oct 10th 2002
From The Economist print edition

Creeping economy, chaotic foreign policy, loth to reform or democratise: who'd join the EU?

Get article background

FALL in love, start a courtship, watch the loved one dither, pop the question just the same—and eventually get the answer yes. This should be a time of rejoicing for the ten applicant countries told this week that their long dalliance with the European Union will be over come December (see article). Instead, they could be forgiven for having second thoughts themselves. The union they are making would be more alluring if the Union they are joining were not in such a mess.

The most eye-catching part of that mess concerns the misnamed stability and growth pact, which forbids members of the euro-zone to run budget deficits of over 3% of GDP, and under which all have agreed to balance their budgets by 2004. Yet Portugal has already breached the 3% limit, France and Germany are close to it, Italy will be pushed to meet the 2004 deadline and France is heading for an official rebuke from the pact's enforcer, the European Commission. In fact, the pact would be better broken, for it could worsen a threat more serious than fiscal laxity: slow growth, or even none at all.

For this, at least some of the blame lies with the Union's last great leap forward, the single currency. One merit of the euro, it was hoped, was that by making price comparisons easy and cutting transaction costs it would serve to energise the European economy and promote structural reform. Instead, it seems to have lumbered the biggest, most sluggish and perhaps least reformed part of that economy, Germany, with interest rates higher than it needs, and also higher than those in America and Japan. With the European Central Bank still fixated on inflation, no interest-rate cut is likely soon.

The drive for political reform is no perkier. A constitutional convention is under way, which could help to connect the EU's citizens to its institutions by defining and delimiting the club's purpose, but may end up by imposing unpopular integration (see article) for the views of Britain's foreign secretary, Jack Straw). And the European Commission's rather modest proposals for reforming the biggest item in the EU's budget, the scandalous common agricultural policy, seem to be foundering, or at least postponed till 2006, thanks to the opposition of the biggest beneficiaries, led by France.

To a large extent the EU's current troubles derive from the disdain its leaders have shown for their voters—look at the Nice treaty and the euro

Unrelated to all this, but of some interest to the applicants, is the uncertainty about regional aid (another big expense), the problem of admitting a divided Cyprus, and a referendum in Ireland on October 19th. If the Irish defy their government in this vote—their second chance to approve the Nice treaty that paves the way for EU enlargement—all plans to expand the club will be thrown into confusion: the treaty must be ratified by all 15 existing members before the new, undemocratic and absurdly complicated voting system comes into effect.

To solve problems such as these, leadership is needed. Under Romano Prodi, though, the commission is weak and, more seriously, the two states that have traditionally driven the European venture in tandem are now out of step. This is particularly evident in foreign and security policy, which is meant to be the EU's next big undertaking after enlargement. France remains a warrior nation, ever critical of America but likely in the end to be won around to joint military action in, say, Iraq. Germany, always nervous

these days of armed encounters, is now unambiguously opposed to any such American-led “adventure” (Chancellor Gerhard Schröder's word), UN-approved or not. To complicate matters further, Britain, Spain and Italy are openly backing the United States.

The soft centre

No matter, you may say; all this just shows the difficulty, or even impossibility, of forging a common foreign and security policy. Yet more is at stake than that. By re-electing Mr Schröder last month, the Germans have ensured that the Franco-German motor will not be driving the EU smoothly and easily over the next four years: France's President Jacques Chirac, also recently re-elected, simply does not get on with Mr Schröder as he did with Chancellor Helmut Kohl or as he would have done had Edmund Stoiber become chancellor instead.

Moreover, Germany has changed, as Mr Schröder recognised when he turned hostility to war in Iraq to his advantage in the final days of the election campaign: the German electorate, which for over half a century has in most big decisions followed the advice of its leaders against its own preferences, is no longer so willing to do so. The euro may be the last unpopular policy it will swallow. The Germans are now inclined to do what they want, and elect leaders who reflect their wishes. In foreign policy, that means not too much belligerence. In economic policy, it means not too much disruption in the name of reform. After decades of post-war hard work, Germany is prosperous. Why go to a lot of bother just to make it more so?

The implication of all this for the EU is that Germany will have to be galvanised by its popular foreign minister, Joschka Fischer, if it is to mobilise the Union. Yet in foreign policy he is unlikely to want the EU to do the sorts of things that others will want it to. And in other policies even he may find the going hard. Most Europeans have given little thought to the expansion of their club. They are already worried about jobs and immigration, and may become more so when they realise that 75m poorer newcomers are about to join. The good news is that most of those newcomers are likely to be Atlanticist, democratic and benignly nationalist: they have not thrown off the Soviet harness in order to be reshackled by Brussels.

The constitution-makers would be wise to recognise that. To a large extent the EU's current troubles derive from the disdain its leaders have shown for their voters—look at the Nice treaty and the euro. The enterprise needs both leadership and democracy if it is to sort itself out, let alone move forward.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Congo

At last, a sort of peace to keep

Oct 10th 2002
From The Economist print edition

An end in sight to the world's biggest war

Get article background

AP

WHEN hyenas stop chewing on a stricken elephant, the beast rarely gets up again. But Congo is hoping for just such a miraculous resurrection. For the past four years, this vast country has been torn and eviscerated by its smaller neighbours, but has been too weak to beat them off. At various times, no fewer than eight African states have sent their armies to take part in Congo's civil war. But this week, as the last of Rwanda's 20,000-or-so troops pulled out, Congo found itself almost free of foreign invaders (see article). For the first time since 1998, the sick elephant of central Africa has a chance to stand up and take control of its own destiny.

Congo's fighting has claimed an estimated 3m lives, mostly through war-induced disease and starvation. Peace in Congo would be the best news Africa could hope for, short of an AIDS vaccine. Although the Rwandan pull-out does not of itself guarantee an end to the war, it does at least make this more likely. Outsiders now need to do all they can to push the peace process along.

Previously, there was little point in sending many UN-backed peacekeepers to Congo, as there was no peace to keep. Now, although myriad militia groups still sporadically slaughter peasants, the big national armies appear to have stopped shooting. Credit is due to Thabo Mbeki, South Africa's president, who sees Congo's troubles as a huge obstacle to his plan to set Africa on the path to peace and prosperity.

Mr Mbeki has worked hard to bring the combatants to the negotiating table, with surprising success. He has also offered to send 1,500 peacekeepers. When he does (he has not yet given a date), they will be welcomed by many. South Africa's is the most effective army south of the Sahara, and is seen to be neutral by most Congolese. So if there is to be an African solution to this African problem, South Africans should be part of it.

Other ways foreigners are helping

Western donors have also played a role. Rwanda pulled out at least partly because the rich nations that bankroll its government made it plain that they were disgusted at what its troops were doing in eastern Congo. The Rwandans first went in to secure their own borders. Thousands of the killers who had committed genocide in Rwanda in 1994 subsequently fled into Congo, where the then Congolese government armed and succoured them. Rwanda was perhaps justified in invading to try to extinguish this threat. But it had no excuse for in effect annexing most of eastern Congo, killing many of its inhabitants, and stealing their property. When the Rwandans left, the locals rejoiced.

Whether they will still be rejoicing next month remains to be seen. There is a danger that the departure of foreign forces will allow local warlords to run amok, as some minor ones already have. To prevent this, Congo needs a proper government, something it has never had.

The South Africans are helping here, too. Mr Mbeki has pushed Congo's unelected president, Joseph Kabila, to talk to local rebel groups and non-violent political opponents, to thrash out the ground rules for a transitional “government of national unity” which could, in a year or two, hold elections. In the

meantime, Mr Kabila has brought a measure of stability to the parts of Congo he controls by ditching some of his unlamented father's dafter economic policies, such as printing money with abandon, arresting potential foreign investors and demanding ransoms to release them, and so on.

Congo has such an unbroken history of failure that it would be easy to despair of the place. But it would also be wrong. It is too early for massive infusions of aid, which would doubtless be stolen by the crooks who still hang around Mr Kabila. But donors can help by paying for peacekeepers, and finding ways to encourage the government's faltering steps towards democracy. This is Congo's best chance for years to become a tolerable place to live. Squander it, and Congo may collapse, creating the world's largest failed state.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Northern Ireland

The peace deal crumbles

Oct 10th 2002
From The Economist print edition

Only full decommissioning by the IRA will save the peace process now

Reuters

IN ITS four and a half years of existence, the Good Friday Agreement has sustained many blows. Yet somehow this fragile pact, which established a devolved government in Northern Ireland and set a peace process in motion, has always managed to pick itself up and carry on. Its resilience has owed much to the British government's determination not to let it fail, something to the lack of any viable alternative and a great deal to the fact that, although deeply flawed, peace of a kind, with all its attendant benefits for the people of Northern Ireland, has prevailed. At the height of the Troubles, nearly 500 people a year were dying from sectarian violence. Last year, there were 19 deaths and this year the figure is expected to be lower still. That is why the crisis that now faces the Agreement and the institutions it set up—Northern Ireland's Executive and its Assembly—matters so much (see article).

Keeping the peace between the Americans and the Europeans over Iraq, which has preoccupied Tony Blair for the past few months, is beginning to look easy compared with the task he faces in Northern Ireland. The characteristic mix of charm and bullying he used to put the Good Friday Agreement in place is not enough to put it back together again. Even before the police raid last week on Sinn Fein's offices in the Assembly in Stormont and elsewhere in Belfast, the Agreement was clearly in deep trouble. Last month David Trimble, the leader of both the Ulster Unionist Party and the power-sharing Executive, joined with the hardliners on his party's council in passing an intentionally impossibilist motion that committed him to quitting the Executive in January, thus bringing it down, if the IRA had not by then disarmed and disbanded. It was a measure of Mr Trimble's despair that the man who has been through so much to preserve the Agreement should have taken such a step.

Now, instead of appearing suicidal, Mr Trimble merely seems prescient. Last week's arrests and the charging of two people, including Sinn Fein's head of administration at Stormont, with possessing documents “likely to be of help to terrorists”, including the names and addresses of 2,000 prison officers, are as damning as they are sinister. Not only does it seem, as Mr Trimble said, that Sinn Fein/IRA has been engaged in “political espionage on a massive scale”—it is believed to have a mole in the office of John Reid, the Northern Ireland secretary—but it was compiling lists of potential targets. The evidence powerfully suggests that the IRA has been busily exploiting Sinn Fein's membership of the Executive to gather information to assist future acts of violence.

Mr Trimble's demands now look more like a statement of the obvious than the declaration of destructive intent they seemed a few weeks ago. No Unionist leader could persuade his party to continue to participate in an Executive in which the IRA is a lurking presence. Mr Trimble may bear some of the blame for the failure of power-sharing—he has frequently appeared to find much of the process odious and he failed to sell the Good Friday Agreement with sufficient gusto to the increasingly sceptical Protestant community—but Sinn Fein, by its actions, never gave him sufficient help. Power-sharing was intended to breed trust, but, tragically, it has achieved only the opposite.

The least bad option

What then should Mr Blair do to salvage something from this wreckage? In truth, he has no good options, only less bad ones. In terms of simple justice, there is much to be said for throwing Sinn Fein out of the

Executive, as the Unionists have long wanted. But without the support of the moderate nationalist SDLP, which seems unlikely, such a move would anyway lead the Executive to collapse and give encouragement to extremists on both sides. The least bad option, therefore, is to suspend the institutions of government in Stormont and revert to direct rule from London, as has happened during previous crises. That would freeze the Executive and the Assembly instead of destroying them.

Mr Blair and Mr Reid are right to want to preserve at least the architecture of the Agreement for as long as possible. But they must also stand by their prior declarations that the peace process cannot tolerate double standards. Last week at the Labour Party conference, Mr Reid warned Sinn Fein that it could not continue to ride two horses at once, “especially if the two horses are as far apart as violence and democracy”. There would be little point in lifting the suspension until the leaders of Sinn Fein have demonstrated by word and deed that they no longer have any use for the IRA. And the test of that is whether or not the IRA at last completes decommissioning and begins to disband. The point has been reached at which nothing else will do.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Oct 10th 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Homeward bound?

SIR – The brightest talents from developing countries stay abroad not only for higher salaries but also to avoid nepotism, maladministration, pot-holed roads and, quite often, criminal governments ("Outward bound", September 28th). It is not so much a question of whether the skilled can be convinced to keep their home ties through dual citizenship as whether they could ever become prosperous or truly effective by returning.

John Wilson
Bangkok

SIR – If emigration hurts developing countries, perhaps developed countries should give preference and encouragement to the best and brightest trying to leave the world's worst regimes. For example, could sponsoring a systematic exodus from Iraq be a better alternative to an eventual invasion?

Steven Salamon
Toronto

Patents and the poor

SIR – There has been widespread applause for the findings of the British government's Commission on Intellectual Property Rights ("Imitation v inspiration", September 14th). This argues that patents block access to essential drugs and that intellectual-property rights offer few advantages to developing countries. However, the real victims of poverty and disease are already finding themselves in a worse position because of previous attacks on intellectual property.

The CIPR report favours weakening the patent protection of anti-AIDS drugs in developing countries, recommends the increase of generic competition for life-saving medicines and argues that technology transfer will not occur quickly in countries with a western-style patent system. Although the arguments about access to drugs through parallel imports and compulsory-licensing agreements may have some theoretical validity, the disincentive to investment provided by such measures is massive. This report sends the wrong signals to an industry that is already moving away from the development of AIDS drugs and into more profitable areas such as erectile dysfunction, baldness and hypertension.

Indeed, according to one study, over 30% fewer AIDS drugs are in development than was the case a few years ago. Criticism and threats of action may be pushing pharmaceutical companies towards less controversial areas of interest. If the commission's recommendations become policy, Africans may well have perfect access to drugs in a few years only to find there are few drugs for the diseases they face.

Roger Bate
Africa Fighting Malaria
Johannesburg

A double dose

SIR – Your article about the dangers associated with acetaminophen, the active ingredient of Tylenol, should have mentioned that it is also known as paracetamol ("Pain killer", September 28th).

Hugh Anderson
Haslemere, Surrey

Theoretical argument

SIR – You do not understand the difference between scientific theory and fact ("On the sixth day, post-modernism", October 5th). While the theory of evolution is widely believed and taught, it is not and never has been a "fact". Furthermore, like all scientific theories, it is subject to revision or replacement as better theories are devised.

It was once accepted as fact that the sun and stars revolved around the earth. This was disproved by a better theory, although not without strong opposition from those firmly holding the earlier, and incorrect, belief. I do not believe the world was created in six days but this Biblical dogma is not the only alternative to Darwin's theory.

John Herris
Cupertino, California

Free choice for 3G

SIR – The assertion that wireless operators in Britain, or indeed anywhere else in the EU, were forced into choosing one type of technology over another to run a third-generation mobile-phone network is not true ("Let Europe's operators free", September 28th). British companies that expressed an interest in bidding for a 3G licence were asked in advance of the auction to specify which technology they preferred to use. They all chose W-CDMA from the range of technologies available. The licences were drawn up to reflect this choice. I have met all the 3G operators with British licences in the past three months and none has expressed a wish to change its technology.

Britain remains at the forefront of developing next-generation mobile technology. All indications are that operators are on course to roll out their 3G services, with one operator expecting to have handsets in the shops by Christmas and 70% coverage of the population by the end of next year. A 3G service has just been launched in Austria with wide geographical coverage.

Stephen Timms
Minister for e-commerce and competitiveness
Department of Trade and Industry
London

Scent the wrong way

SIR – Sadly, you repeat the old fallacy that l-limonene has a lemon odour ("Telling right from left", September 21st). Orange and lemon both contain d-limonene; neither contain l-limonene. The best example for demonstrating chirality is spearmint and caraway/dill. The major constituent of both oils is carvone. In spearmint it is laevo-carvone and in caraway/dill it is d-carvone (dextro). It is the particular isomer of carvone which gives each plant its specific odour.

Hugo Bovill
Bury St Edmunds, Suffolk

Sex...

SIR – While sexual scandals make interesting copy, particularly those involving blonde bombshells, they do not constitute intelligent or useful political debate. By headlining Lexington (September 21st) "Jennifer flowers", with an invocation of the scandalous but politically insignificant blonde, Gennifer Flowers, you preclude any possibility of treating Jennifer Granholm as a legitimate candidate for the governorship of Michigan. If America is ever to take female political candidates seriously, this type of journalism has to stop.

Marie Drennan
San Francisco

...and drugs

SIR – You estimate that three ounces of cannabis—proposed as the legal limit for possession in Nevada—would be enough for a "nice evening in" ("One puff at a time", September 28th). Most users would find the resulting 200 or so joints that three ounces would provide to be sufficient for several months of evenings in. Perhaps your writer had been sampling the product prior to doing his sums.

Doug McClelland
Vancouver

Clever dick

SIR –"The meaning of Lula" (October 5th) in Urdu is penis.

Asif Niazi
Canada

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iraq, Israel and the United Nations

Double standards

Oct 10th 2002
From The Economist print edition

Reuters

Israel ignores the United Nations and has weapons of mass destruction. So why all the fuss about Iraq?

Get article background

SOON after invading Kuwait in 1990, Saddam Hussein realised that he had made a mistake. Contrary to his expectations, the world would not after all allow his land-grab to stand. The United States was girding for war. He therefore began to cast around for a face-saving exit. One of the first ideas he came up with was “linkage”. Why not trade a withdrawal from Kuwait for Israel's withdrawal from the territories it had occupied in 1967?

Linkage got nowhere. But as the world debates the merits of another American-led war against Mr Hussein, the idea has returned in a new form. Israel has violated countless UN resolutions and amassed weapons of mass destruction, say those who oppose this war. Why then is Iraq singled out for yet more punishment while the Israelis get off scot-free?

This question is no longer being asked by Arabs alone. “No war against Iraq, Free Palestine” has become the slogan of anti-war demonstrators in Europe and America. The two conflicts have become entwined in the public mind in a way that the West's politicians cannot ignore. When he sought last week to talk his sceptical Labour Party into supporting action against Iraq, Tony Blair, Britain's prime minister, got his biggest cheer for the bit of his speech that said UN resolutions should apply in Palestine as much as Iraq.

To many of those disturbed by the contrast between the world's treatment of Israel and its treatment of Iraq, it is rights and wrongs, not details of law, that matter here. Israel's occupation of the West Bank and Gaza has endured for 35 years, against the will of the Palestinian inhabitants, who dearly want, and in the eyes of the world have long deserved, a state of their own. But whereas Israel is supported economically and diplomatically by America, America is the prime mover against Iraq. Simple justice, or so the argument goes, requires even-handed behaviour by the superpower in the two conflicts.

That may be so. But a quite distinct sort of claim is also made in the “double standards” debate. This holds that Israel stands in breach of Security Council resolutions in just the way Iraq does, and therefore deserves to be treated by the UN with equal severity. Not so.

What the law says

The UN distinguishes between two sorts of Security Council resolution. Those passed under Chapter Six deal with the peaceful resolution of disputes and entitle the council to make non-binding recommendations. Those under Chapter Seven give the council broad powers to take action, including warlike action, to deal with “threats to the peace, breaches of the peace, or acts of aggression”. Such resolutions, binding on all UN members, were rare during the cold war. But they were used against Iraq after its invasion of Kuwait. None of the resolutions relating to the Israeli-Arab conflict comes under Chapter Seven. By imposing sanctions—including military ones—against Iraq but not against Israel, the UN is merely acting in accordance with its own rules.

The distinctiveness of Chapter Seven resolutions, and the fact that none has been passed in relation to Israel, is acknowledged by Palestinian diplomats. It is, indeed, one of their main complaints. A Palestine Liberation Organisation report, entitled “Double Standards” and published at the end of September, pointed out that, over the years, the UN has upheld the Palestinians' right to statehood, condemned Israel's settlements and called for Israel to withdraw. But “no enforcement action or any other action to implement UN resolutions and international law has been ordered by the Security Council.”

But what if, for the sake of argument, the main Security Council resolutions on the Arab-Israeli conflict had been Chapter Seven resolutions? The problem would then arise that Resolution 242 of 1967, passed after the six-day war and frequently cited in the double-standards argument, does not say what a lot of the people who quote it think it says (see article). It does not instruct Israel to withdraw unilaterally from the territories occupied in 1967. It does not condemn Israel's conquest, for the good reason that most western powers at that time thought it the result of a justifiable pre-emptive war. It calls for a negotiated settlement, based on the principle of exchanging land for peace. This is a very different matter.

In the case of Iraq, the Security Council has instructed Mr Hussein to take various unilateral actions that he is perfectly capable of taking. Resolution 242 cannot be implemented unilaterally, even if Israel wanted to do so.

AP

In contravention of lots of resolutions

Why? First is the question of borders. Some of the diplomats who drafted Resolution 242 said afterwards that they intended to allow for some changes in the armistice lines that separated Israel and its Arab neighbours before the war of 1967. There has been a dreary argument for three decades over the meaning of the absence of a definite article (in the English text) before the phrase “territories occupied in the recent conflict”. The Arabs maintain that the resolution requires a complete withdrawal from every inch. But even if this were so, the resolution cannot be implemented without arriving at a negotiated agreement.

For example, the resolution calls for a “just” settlement of the Palestinian refugee issue. Meaning what? The Palestinians say that a UN General Assembly resolution, 194 of 1948, gives all the Palestinian refugees of 1948 the right to return, or to get compensation. Israel, denying responsibility for their flight, says that the same resolution stipulates that these refugees had to be willing to “live at peace with their neighbours” and that the Palestinians, having rejected the UN-sanctioned partition of Palestine, were not prepared to live in peace with the new Jewish state. More than half a century later, the refugee population has grown from about 700,000 to at least 3.8m, making the return of all of them an impossibility, says Israel. It may be possible to negotiate a compromise on this issue, as Yasser Arafat and Ehud Barak attempted without success at Camp David in 2000. But there exists no Security Council blueprint to solve it.

Israel says that it has already implemented much of 242, and that it stands ready to implement the rest of it. It returned land to Egypt and Jordan in return for peace. Two years ago, when he was prime minister, Mr Barak offered the bulk of the Golan Heights in return for peace with Syria. All the agreements made between Israel and the Palestinians under the Oslo peace process were predicated on Resolution 242. Israel subsequently withdrew from the main Palestinian population centres (although it has returned to them since the *intifada*) pending negotiation of a final settlement. And though there are strong grounds to question his sincerity, Israel's new prime minister, Ariel Sharon, claims to accept George Bush's peace “vision”, set out in June, of an Israeli withdrawal and a free Palestine based on the borders of 1967.

It is commonly asserted that Israel's occupation is “illegal”. This is questionable. In March, for the first time ever, Kofi Annan, the UN's secretary-general, called Israel's occupation illegal, but it is no accident that he has not repeated this claim. In the view of Sir Adam Roberts, professor of international relations

at the University of Oxford, it was a “serious mistake” to describe the occupation itself, as opposed to some of Israel's actions as an occupier, in this way. In a subsequent letter to the *New York Times*, Mr Annan's spokesman admitted as much. The secretary-general, he said, had not intended to refer to the legality of Israel's occupation of the territories during the war of 1967, only to breaches of its obligations as an occupying power.

This is where Israel has put itself squarely on the wrong side of the Security Council. Since 1967, the UN has rejected all Israel's attempts to change the legal and demographic status of the captured territories, by annexing Jerusalem, applying Israeli law to the Golan Heights and planting Jewish settlements in the West Bank and Gaza (see article). How can vigorous attempts to colonise the occupied territories be reconciled with Israel's claim to accept 242 and the principle of land for peace that underlies it?

They can't. The plain fact is that Israel, citing history ancient and modern (Jerusalem has had a Jewish majority since the 19th century), decided after conquering its Jordanian half in 1967 to make the city its eternal “unified” capital. The Labour governments of that period also began to dot the Jordan valley and Golan Heights with Jewish settlements, ostensibly in order to guard the new borders against a still hostile Arab world. After 1977, the Likud governments of Menahem Begin and Yitzhak Shamir set out frankly, for religious-ideological reasons, to make the occupied territories part of a Greater Israel, in defiance of the UN and of the logic of 242. Here Israel cannot plead innocence. All it can enter is a plea of mitigation.

Legal or not, the occupation has lasted a terribly long time. But this is not solely Israel's fault. In 1967, it was the Arabs who rejected Resolution 242. They certainly did not accept Israel's new post-war borders, but nor did they recognise its pre-war borders. They did not, in fact, acknowledge Israel's right to exist at all. This posture persisted for a dozen years after 1967, until Egypt alone made peace. The Palestinians, pledging still to “liberate” all Palestine and dissolve the Jewish state, waited longer. Not until the late 1980s, some 40 years after Israel's birth and 20 years after the 1967 war, did Mr Arafat's PLO indicate an interest in a two-state solution. Under the rules of “belligerent occupation”, Israel should not have mucked about during those 20 years with the status of the captured lands. But it is not wholly surprising, given the continuing rejection and siege, that it did.

When the Palestinians decided that they were no longer bent on its extirpation, Israel responded. In 1993 it signed an agreement with the PLO under which the two sides undertook to implement Resolution 242 by negotiation, thus putting all the contentious issues—Jerusalem, the settlements and the refugees—on the bargaining table. Two years ago the talks failed, to be followed by a new Palestinian *intifada* and the election of the unyielding Mr Sharon. The Israelis claim that their agreement to negotiate the thorny issues with the Palestinians supersedes the relevant UN resolutions on settlements and the rest, a view which the Security Council might accept if the negotiations got back on track. In the meantime, the council's rulings on Jerusalem and the settlements stand.

The nuclear shadow

Over the past two years, the *intifada* has given rise to a new batch of resolutions. Some rebuke the Israelis for using “excessive” force, others make specific demands. Resolution 1435, for example, calls on Israel to pull out of the Palestinian cities it has recently reoccupied and back to the positions it held before the violence started in September 2000. It has been ignored. But like most recent resolutions, this one cuts both ways. It makes demands of the Palestinians, too, which have also been ignored. In this case, the Palestinian Authority is instructed to cease all violence and incitement, and to bring “those responsible for terrorist acts” to justice.

In the long and intractable conflict over Palestine, both sides consider themselves victims. The Palestinians say that their national rights were usurped by an intruder; the Israelis that the Palestinians never accepted the Jewish right to self-determination. The UN's approach has been to recognise the complexity of these respective claims, lay down broad principles, and urge a negotiated peace. The case of Iraq could hardly be more different. That country is in conflict with the UN itself, having refused to comply with the clear instructions, under Chapter Seven, to give up its weapons of mass destruction.

What, though, about Israel's nukes? Does its status as an undeclared nuclear power put it on a par with Iraq, which has tried to become one? No. In 1981, Resolution 487 scolded Israel for sending its aircraft to destroy Iraq's Osiraq reactor, which Israel said was being used to manufacture a nuclear weapon, despite having been given a clean bill of health by inspectors from the International Atomic Energy Agency. Noting that Israel had not signed the nuclear non-proliferation treaty (NPT), as Iraq had, the UN called on Israel to put its own nuclear facilities under the IAEA safeguards, as the NPT requires.

Two decades on, Israel has still not signed the NPT. This infuriates the treaty's supporters, who have been striving to make it “universal”. But, as with any other treaty, governments are free not to sign. What they are not free to do is sign, receive the foreign (civilian) nuclear help to which signing entitles them, and then try to build a bomb secretly. This, it is now ruefully accepted, is what Iraq tried to do, and may still be trying to do. Israel is thought to possess a large nuclear arsenal, about which it is not being open and honest, and this is provoking to its neighbours. But it is not evidence of “double standards”. Being a nuclear-armed power is not, by itself, a breach of international law.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Resolution 242 (1967)

Oct 10th 2002
From The Economist print edition

The Security Council,

•Emphasising the inadmissibility of the acquisition of territory by war and the need to work for a just and lasting peace in which every State in the area can live in security...

•Affirms that the fulfillment of Charter principles requires the establishment of a just and lasting peace in the Middle East which should include the application of both the following principles:

•Withdrawal of Israeli armed forces from territories occupied in the recent conflict;

•Termination of all claims or states of belligerency and respect for and acknowledgement of the sovereignty, territorial integrity and political independence of every State in the area and their right to live in peace within secure and recognised boundaries free from threats or acts of force;

Affirms further the necessity

•For guaranteeing freedom of navigation through international waterways in the area;

•For achieving a just settlement of the refugee problem;

•For guaranteeing the territorial inviolability and political independence of every State in the area, through measures including ...demilitarised zones;

•Requests the Secretary-General to designate a Special Representative to proceed to the Middle East to establish and maintain contacts with the States concerned in order to promote agreement and assist efforts to achieve a peaceful and accepted settlement in accordance with the provisions and principles in this resolution.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Post-1967 UN resolutions relating to Israel-Palestine

Oct 10th 2002
From The Economist print edition

Resolution 252 (May 1968): All measures and actions taken by Israel with the aim of changing the legal status of Jerusalem, "including the expropriation of land and properties thereon are invalid and cannot change that status".

Resolution 446 (March 1979): "The policy and practices of Israel in establishing settlements in the Palestinian and other Arab territories occupied since 1967 have no legal validity." Israel must "rescind its previous measures and...desist from taking any action which would result in changing the legal status and geographical nature and materially affecting the demographic composition of the Arab territories occupied since 1967, including Jerusalem, and, in particular, not...transfer parts of its own civilian population into the occupied Arab territories."

Resolution 465 (March 1980) Israel's settlement policy constitutes "a flagrant violation of the Fourth Geneva Convention relative to the Protection of Civilian Persons in Time of War". It "calls upon all States not to provide Israel with any assistance to be used for settlements in the occupied territories".

Resolution 471 (June 1980) re-emphasises the illegality of Israeli settlements and expresses concern "that Jewish settlers...are allowed to carry arms thus enabling them to perpetrate crimes against the civilian Arab population".

Resolution 605 (December 1987), passed at the beginning of the first Palestinian *intifada*, deplores the "policies and practices of Israel which violate the human rights of the Palestinian people in the occupied territories".

Resolutions 607 (January 1988), 636 (July 1989), 694 (May 1991), 726 (January 1992) and **799 (December 1992)** condemn Israel's deportation of Palestinian civilians from the occupied territories, in violation of the Fourth Geneva Convention.

Resolution 904 (March 1994), after the massacre of Palestinian worshippers in Hebron by Baruch Goldstein, calls upon Israel to prevent illegal acts of violence by Israeli settlers. It also demands measures to guarantee the safety of Palestinian civilians, including "a temporary international or foreign presence", as provided for by the Oslo Accords.

Resolution 1322 (October 2000), passed soon after the outbreak of the second Palestinian *intifada*, "deplores the provocation carried out at al-Haram al-Sharif in Jerusalem on September 28 2000" (the visit of Ariel Sharon, to emphasise Israel's sovereignty over the area), and the subsequent violence in the occupied territories.

Resolution 1405 (April 2002) expresses concern at "the dire humanitarian situation of the Palestinian civilian population", particularly in Jenin refugee camp, and calls for "the lifting of restrictions imposed on the operations of humanitarian organisations".

Resolution 1435 (September 2002) condemns "all terrorist attacks against civilians" and also demands "the expeditious withdrawal of the Israeli occupying forces from Palestinian cities".

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

America against Iraq

The gathering storm

Oct 10th 2002 | WASHINGTON, DC
From The Economist print edition

AP

The Bush administration continues its relentless push to oust Saddam Hussein

THE writing is not yet on the wall for Saddam Hussein. But hardly a day goes by without the Bush administration adding another gigantic letter. On Monday, George Bush took the unusual step of talking to the nation on television about the case for dealing with Mr Hussein and his “arsenal of terror”. Congress this week came closer to passing a resolution granting Mr Bush war powers. A month ago it looked as if the doves might be winning the argument. Now the only question is how big a majority the president will get.

Mr Bush's decision to address the nation was prompted in part by a slight softening of public support for the war. A new *USA Today*/CNN/Gallup poll shows that the proportion of people who favour invading Iraq with American troops has fallen from 57% on September 20th-22nd to 53% on October 3rd-6th. A *New York Times* poll shows that the proportion who favour delaying military action to give the United Nations more time to get weapons inspectors back into Iraq increased from 57% on September 22nd-23rd to 63% on October 3rd-5th.

This ambivalence is not surprising. War is easy to justify when it is a matter of responding to a direct attack or dealing with an imminent threat. A pre-emptive strike against a “grave and gathering threat” requires more explanation. Mr Bush should have spent the summer laying out the logic of this new kind of war. Instead, his administration wasted time on an internal argument between the unilateralists at the Pentagon and the vice-president's office, and the internationalists at the State Department. It was only when the administration produced a compromise which tries to force the UN really, genuinely to live up to its obligations, that all sides were able to unite behind a common message. Mr Bush is now trying to squeeze several months worth of opinion-moulding into what is probably just a few weeks.

His difficulties have been increased by the fact that he has to address so many different audiences: the American people as well as international diplomats (particularly the members of the UN Security Council), and sceptical Democrats as well as hard-line conservatives who think that he made a mistake by having any truck with the UN. The Lone Ranger style that goes down well with many Americans is anathema to international ears.

How well did Mr Bush succeed in squaring all these circles? He talked in a moderate and subdued tone. There were a few crowd-pleasing touches, but in general Mr Bush was a model of careful deliberation. He spoke more in sorrow than in anger, more like a lawyer than a commander-in-chief. “This was Mr Bush as the anti-cowboy,” says Marshall Wittmann of the Hudson Institute, “the product of Andover and Yale

rather than Midland, Texas.”

The president took pains to address the questions that most trouble Americans. Why Iraq, rather than any of the other ghastly regimes that litter the earth? Mr Bush argued that Iraq is unique in combining a murderous tyrant with weapons of mass destruction and a belligerently anti-American ideology. Why not finish the war on al-Qaeda before dealing with Saddam, as Al Gore wants? Mr Bush retorted that “terror cells and outlaw regimes building weapons of mass destruction are different faces of the same evil.”

Perhaps the trickiest question of all is “Why now?” Mr Bush argued that the terrorist attacks on September 11th last year woke America up to threats it had previously been tempted to ignore. He added that continuing to do nothing is “the riskiest of all options”. America cannot afford to wait for a “smoking gun” that could come in the form of a “mushroom cloud”.

He was at pains to point out that dealing with Mr Hussein will not be easy. He avoided cheap tricks: he did not flourish pictures (though the White House released satellite photographs, reminiscent of the pictures produced during the Cuban missile crisis, which showed the extensive rebuilding of a nuclear plant). He did not argue that Mr Hussein and Osama bin Laden are close friends (though he did produce anecdotal evidence of links between al-Qaeda and Mr Hussein's regime). The virtue of the speech lay in its relentless accumulation of detail and argument.

But, for all its judiciousness, it nevertheless had a spine of steel. Mr Bush made it clear that America demands more than unfettered access for weapons inspectors: it demands a change in the nature of the Iraqi regime. He also argued that, given Mr Hussein's past trickery, the only sure way to neutralise the threat will be to get rid of Mr Hussein himself. Mr Bush is clearly gambling that a mixture of presidential firmness and an overwhelming victory in Congress will make the UN come down on the side of more resolute action.

Mr Bush's speech—and subsequent stump appearances in which he reiterated the message—certainly added to his already considerable momentum on Capitol Hill. The Senate debate went almost entirely in his direction. Three Democrats facing tough re-election races added their names to the war resolutions. Joseph Lieberman and Evan Bayh, two other sponsors of the resolution, dismissed liberal complaints that Mr Bush had not made the case against Mr Hussein. Tom Daschle, the Senate majority leader, indicated that he plans to vote for the resolution.

What about public opinion? The impact of the president's speech was blunted by the fact that only the Fox network aired it. Americans continue to be barraged with contradictory information. The Pentagon released details of Iraq's efforts to conceal its weapons programmes, reiterating its scepticism about any sort of inspection regime. At the same time, a letter from George Tenet, head of the CIA, published at the behest of Congress, argued awkwardly that military action could provoke Mr Hussein into unleashing a chemical or biological attack on the United States—but that, short of such provocation, no attack seemed imminent.

Beyond his words, the best measure of Mr Bush's seriousness about Iraq is the continuing military build-up in the Gulf. America has maintained a sizeable military presence there since the last Gulf war, in 1991. But, according to the *National Journal*, that presence has been substantially strengthened since September 2001: so much so that some defence analysts speculate that the forces could be ready for a full-scale invasion in as little as eight weeks.

Some estimates say America already has some 40,000 soldiers in the area, and enough equipment for 50,000 marines. The army has doubled its stockpile of materiel in the region since September 11th last year—and is well on the way to tripling its stockpile near the Iraqi border with Kuwait. American bases have been expanded and modernised. The aircraft that patrol the two no-fly zones over Iraq have taken to inflicting heavier damage, particularly on Iraq's command-and-control systems. Some 600 staff from the army's Central Command headquarters in Tampa, Florida, will move to Qatar in November as an exercise.

With Mr Bush determined to change the nature of the Iraqi regime, Congress willing to give him the powers he wants, and the Democrats' peaceniks divided and confused, the likelihood that the “exercise” will turn real grows by the day.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The president and the dockers

George Bush, union-basher?

Oct 10th 2002 | WASHINGTON, DC
From The Economist print edition

By ending the west-coast port shutdown, the president has helped the economy. He may pay a political price

THIS week George Bush waded into the labour dispute that has paralysed 29 ports on the west coast. He invoked the 1947 Taft-Hartley Act, a law unused since the 1970s, which lets the president force people back to work if a strike or a management lock-out "imperils national health or safety". Arguing that the blocked ports threatened both America's economy and its national security, Mr Bush got a court injunction which ordered the ports to reopen, at first until October 16th but then, most likely, for the full 80-day cooling-off period the Taft-Hartley law allows.

Reuters

Surfin' Taft-Hartley

Businessmen were delighted. Many had been urging the White House to intervene in a dispute that was starting to hurt. With 200 ships idling off the west coast, and scores more heading across the Pacific, manufacturers were missing parts, retailers could not plan their Christmas shelves and farmers could not sell food to Asia. The National Association of Manufacturers claimed that 5% of its members had already closed plants or cut production. Mr Bush said that farms were losing "a thousand jobs a day" and, in all, the economy was losing "up to $1 billion a day".

In fact, by opening the ports after 11 days, Mr Bush has ensured that the macroeconomic consequences of the dispute will be minimal. Though it will take weeks to work through the backlog of cargo, and though specific industries will be temporarily hit, overall economic growth is unlikely to suffer much. After all, this dispute has been simmering for months. Many firms had stocked up on inventories or arranged other means of transport.

The problem for the White House was that the costs of a port shutdown would have snowballed if the dispute had continued. Exports and imports together are worth around 25% of GDP, and the west-coast ports carry over half of the cargo that is shipped in and out of America in containers. Since many goods cannot efficiently be moved by air, a long stoppage would have meant a huge supply shock. The risks of such a shock, given America's already weak economy, were chiefly what tipped the White House towards action. Mr Bush is also accused of concentrating too much on Iraq and not enough on the economy. Opening the ports is a dramatic way of denying that.

But it has a political price. Mr Bush has infuriated the unions, a core Democratic constituency—and one that he himself has been courting heavily—just weeks before the mid-term elections. The AFL-CIO, America's main union federation, was outraged at the use of Taft-Hartley. Ron Blackwell, one of its top men, called the White House action "unprecedented, unnecessary, unfortunate and unjustified". This was, he argued, the first time Taft-Hartley had been used when management was locking out workers from the ports. The port operators locked out workers on September 27th, accusing them of a deliberate

work slowdown, a “strike with pay”.

Irritating the unions so close to the mid-term elections is a risky business for Mr Bush. Outraged, they may work all the harder to get out Democratic votes in tight races. But the bigger risk is that this dispute undermines the White House's long-term efforts to woo selected unions away from the Democrats.

Mr Bush won only a third of union-household votes in the 2000 election. Since then his top strategist, Karl Rove, has been waging a quiet campaign to win more union support. Mr Bush's decision to impose steel tariffs in March 2002 was designed, in part, to curry favour with steel workers. He is doing well with the Teamsters (who favour drilling for oil in Alaska) and the half-a-million-member carpenters' union (who have doubled their contributions to Republican congressional candidates in 2002). If Mr Bush comes to look like a politician who is against collective bargaining and intervenes on behalf of bosses, all this could turn very sour.

Anyway, Taft-Hartley may not actually solve the port problem. The 10,500 longshoremen who control the west coast ports, furious about the Taft-Hartley decision, are now all the more determined to hold out for union control over jobs created by new technology at the ports (a key issue in the dispute). Quite possibly, no compromise will be reached in the 80-day cooling-off period. And the history of Taft-Hartley is not promising. On eight of the 11 occasions when the act has been invoked in cases involving dock workers, the dispute re-emerged after 80 days. Still, by then the mid-term elections will be safely out of the way.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Peace protests

Thank goodness for war

Oct 10th 2002 | NEW YORK
From The Economist print edition

At last, something to get really worked up about

PERHAPS 20,000 protesters turned out in Central Park on October 6th. Here waved a Palestinian flag, there bobbed a placard connecting George Bush to Enron. At one point, members of the crowd took out their wallets in memory of Amadou Diallo, an immigrant killed by New York cops as he reached for his wallet. A casual observer could be forgiven for being confused. Exactly what was everybody protesting about?

The theme, as it happened, was Iraq, and the centrepiece of the protest was a “Pledge of Resistance”, passed around on fliers, which included the solemn pledge of “no more transfusions of blood for oil”. But demonstrators and speakers, which included several Hollywood stars, also decried the war in Afghanistan, police brutality, poor farmers in Latin America, the drug war, patriarchy, Halliburton and the need for sustainable energy. Some saw an American “war on the world”, with the IMF, the World Bank, the World Trade Organisation, the Bush administration and large corporations as different incarnations of the same unspeakable evil. In the face of so many overwhelming enemies, protest gets a bit diluted.

Polls repeatedly show high support for a pre-emptive strike on Iraq. And the motley crowd has no hope of changing the president's mind. At the very least, more letters may get written to Congress and a few doveish members in liberal districts may be emboldened to join in. But in the current climate they will have to be very bold, and their districts very safe indeed.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Policing America

Bratton's back

Oct 10th 2002 | LOS ANGELES AND NEW YORK
From The Economist print edition

Los Angeles gets a law-and-order saviour, it hopes, from New York

SOME politicians are praised for a string of small successes; others get one big thing right, for which other lapses are forgiven. James Hahn, the mayor of Los Angeles, after 15 months of lacklustre leadership, has boldly appointed Bill Bratton as head of the Los Angeles Police Department. The LAPD has had a dismal decade since four of its officers were videotaped beating Rodney King in 1991. The riots that erupted after their trial were followed by a steady drip of abuse lawsuits and corruption scandals. Mr Bratton, the man now charged with sorting things out, did wonders in fighting crime as chief of police both in his native Boston and in New York.

During his 27 months in charge in New York, the city's police force was transformed. Murders dropped by 45% and other serious crimes such as rape and assault by 36%. A sense of fear and anarchy was replaced by one of hope and order. Mr Bratton was helped by the then mayor, Rudolph Giuliani, who hired and fired him, and by huge budget increases, as well as by at least a temporary fall in the number of teenagers, which helped to cut crime everywhere in America. But Mr Bratton brought to the job an extraordinary energy and imagination, which had the effect of convincing most people that law-enforcement was a problem that could be solved.

His managerial skills are badly needed in Los Angeles, where the trouble is as much within the police force as in the city's crime figures. In picking an outsider, Mr Hahn has pandered neither to the various ethnic lobbies that vie for control of the city's top political posts nor to the police department itself. He had already infuriated many blacks by announcing that he did not intend to reappoint Bernard Parks, the previous police chief, to a second term. And he resisted the opportunity to bid for the loyalty of Latinos, the rising force in Los Angeles politics, by appointing Art Lopez, the only former LAPD officer among the three finalists for the job.

The risk is that an outsider may be unable to crack the wall of collegiate loyalty that has hitherto protected policemen who abuse their position, and so prevented change. But Mr Bratton has several advantages over Willie Williams, the former chief of the Philadelphia police who was brought in after the 1992 riots but lasted only one term in office. First, he is more familiar with the LAPD, having spent much of the past year helping to monitor it under a federal decree that detected a “pattern or practice” of civil-rights violations. Second, changes in the force's charter give the chief more freedom to reorganise the department, which Mr Bratton has said he intends to do.

His year on the monitoring team has helped him see how he might do it. Special units, such as the teams dealing with robbery-murders, drugs and gangs, have become pockets of complacency, bad at co-operating with each other, and cushy homes for the old-boy network. Mr Bratton has already pointed out the absurdity of a drugs squad that works only a nine-to-five day from Monday to Friday. A second priority is wrapping up the investigation of a corruption scandal set off by the arrest of Rafael Perez, an officer in the gangs unit who claims that he and his fellow officers planted evidence, framed suspects and even shot them. So far the investigation has been no more than half-hearted. Mr Bratton wants it over and done with.

A swift reorganisation—promoting capable junior officers and demoting, transferring or sacking tired bureaucrats—was one of three measures that helped Mr Bratton succeed in New York, says Fred Siegel of the Progressive Policy Institute, a Washington think-tank. The second, which he also intends to take to LA, was CompStat, a daily computerised tracking of crimes to make sure something was being done about them. The LAPD once led the country in its use of advanced technology, such as radios in the 1950s, but now it has fallen badly behind. After the 1992 riots it was urged to set up a department-wide computer system, but nothing happened.

Mr Bratton's third New York measure—drawing on academic theories about the consequences of “broken windows”—was to focus on small infractions of the law, which can lead to greater crimes. Soon after he became police commissioner, Mr Bratton made a target of the city's infamous “squeegee men”, who demanded money from frightened drivers in exchange for smearing filthy rags across their cars. He has graffitists in his sights in Los Angeles, too. He will need to be more careful there, though, reckons Joe Domanick, a lecturer at the University of Southern California. Part of the LAPD's difficulties stem from its long history of hassling young blacks and Latinos.

But the problem that eventually undid Mr Bratton in New York will not trouble him in LA. Mr Bratton loves the spotlight, and for Mr Giuliani, whose ego was equally large, this proved intolerable. Mayor Hahn of Los Angeles is a retiring fellow, happy to stay in the wings while his new star makes his entrance. Angelenos may well end up applauding him as loudly as New Yorkers did.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Gun control

A sniper in the suburbs

Oct 10th 2002 | WASHINGTON, DC
From The Economist print edition

Yet more reason to deplore guns, even as Democrats have started to like them

AP

Fearfully to school

IT HAS been eerily bloody. Starting on the evening of October 2nd, a series of long-range snipings has claimed seven victims in the workaday Maryland and Virginia suburbs of America's capital, and one in the District of Columbia itself. Schoolchildren, a man mowing grass, women sitting on benches or loading packages into minivans have been shot by a marksman with a rifle. Six of them died. Police have matched six of the bullets, and are said to have found a tarot card at one site that read: “Dear policeman, I am God.” On the evening of October 9th, another man was shot dead in Manassas, Virginia, as he filled his car with petrol. He may well be a ninth victim.

The killings will doubtless strengthen suburban voters in their already vigorous support for tighter gun-control laws. A national opinion poll in 2000 showed 66% of suburbanites wanting stronger laws, and only 3% looser ones. John Lott, the author of “More Guns, Less Crime”, reckons that suburbanites have the strongest reaction to gun violence. Inner-city-dwellers, sadly, have grown more used to it.

The suburbanite reaction helped to get America's six federal gun laws through Congress, the first of them in 1934. Now there is a move for a new law that would require gun-owners to register the unique imprint their weapon puts on a bullet, so that the owner can be tracked down. At present, only Maryland and New York have such laws.

So, since suburbanites vote more heavily for Democrats, will the Democrats go for tougher gun control? Not necessarily. After Al Gore had lost gun-loving states like West Virginia, Tennessee and Arkansas in the 2000 presidential election, a lot of Democrats concluded that gun control hurt them more than it helped them. Mark Warner won Virginia's governorship last year by being liberal on most issues but relatively pro-gun. Jean Carnahan, a Missouri Democrat, even took up skeet-shooting to polish her pro-gun bona fides. Some of the closest races in next month's elections are in largely rural states such as South Dakota and Arizona; and, other things being equal, rural voters get angrier about anti-gun candidates than suburban voters do about pro-gun ones.

Still, in the long run it will be risky for the Democrats to turn their backs on what the suburbs feel. Rural populations have been declining for the past half-century, but the suburbs have been exploding. Suburbanites are also likelier to vote: in 2000, they were 43% of the total electorate, compared with rural America's 23%. This year has already brought evidence that gun control matters in elections. In Pennsylvania, Ed Rendell is reckoned to have won the Democratic nomination partly because of a huge turnout of Philadelphia suburbanites annoyed by the fact that his rival, Bob Casey, had been endorsed by the National Rifle Association.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The South Dakota Senate race

Oh no, don't ask me to choose

Oct 10th 2002 | SIOUX FALLS
From The Economist print edition

Elections are supposed to reveal voters' preferences. Sometimes it's too hard

AP

Johnson on left, Thune on right

FOR most Americans, the South Dakota Senate race looks like a proxy war between two men not on the ticket: the president, George Bush, and the Democratic leader of the Senate, Tom Daschle. Mr Bush picked the Republican candidate, John Thune, who had originally wanted to run for governor. He raised money for Mr Thune and has often visited the state to help him. Mr Daschle, the senior senator from South Dakota, has campaigned hand-in-hand with his junior colleague, Tim Johnson, the Democratic candidate, and has called the race vital to the Democrats' ability to keep control of the Senate.

The race may well have wider implications. But it is not a national referendum, and local considerations are paramount. One of the biggest issues is a dispute over the flow of water in the Missouri river, which divides the state in half. Another is help for ranchers affected by the driest summer the state has endured since the Dust Bowl years of the 1930s.

But the most important local quality of the race is the fact that it is an even contest between incumbents. Messrs Johnson and Thune both represent the whole state. Mr Thune is South Dakota's congressman-at-large, for the state has so few people scattered over its vast acreage that it qualifies for no more than one man in the House. So both men are known to the whole electorate, and both are popular and respected figures.

About 60% of voters say they like both of them. Mr Thune won his two previous elections overwhelmingly, with three-quarters of the vote (admittedly against weak opponents). Mr Johnson won more narrowly, with 51%; but at least a quarter of the electorate must have voted for both men. Now every other South Dakotan seems to hate having to choose between them. Polls say the race is even, with each man getting a touch under 44%. This has been true more or less since it started.

How are voters to make up their minds? Normally television advertising, the main medium for reaching the electorate, would help. In this race, the ad campaign has been raging for a year, almost certainly the longest “air war” any Senate race has seen. But the ads are doing more to muddle the voters than persuade them.

Both men simultaneously say they are doing everything they can to protect the pensions system, even though they are both committed to privatising it. (In one of the sub-plots of the mid-term elections, pensions privatisation has been universally deemed a bad thing. The “third rail” of American politics has been electrified again—something that is particularly evident in South Dakota.) And both men are responsible for the same new schools, bridges and irrigation projects.

Naturally, each man seeks to demonise his opponent by exaggerating his alleged weaknesses. You might think this would clarify the choice. But it has merely confused it. Voters seem to have the option of Attila the Hun or Trotsky. This is unpersuasive. Although there are differences between the candidates, they are nothing like as sharp as each of them pretends. Mr Thune is a mainstream Republican. Mr Johnson is a centrist Democrat who voted for Mr Bush's tax cut. Voters, knowing both men well, pay the ads scant attention.

Just possibly, this may be one of the few races where Iraq will make a difference. Mr Thune has produced

an advertisement trying to link Saddam Hussein, al-Qaeda and an anti-missile defence system. Mr Johnson voted against the last of these and against the Gulf war in 1991. Mr Thune wants to say his rival is generally weak on national-security issues. The trouble is that Mr Johnson is the only member of Congress with a son who has served in Afghanistan and is likely to go to Iraq. He also says that, this time, he will co-sponsor the Senate's version of the bill authorising an attack on Iraq. Mr Thune's criticism may boomerang.

With the battle turning into trench warfare, the outcome may be decided by confused voters falling back on their underlying attitudes and beliefs. The question is: which ones? Mr Thune must hope they revert to good old party loyalty. In 2000, Mr Bush won South Dakota with 60% of the vote, one of his larger victories. Republicans dominate local politics. Good for Mr Thune? But since 1945 South Dakotans have elected more Democratic senators than Republican ones.

Mr Johnson hopes the voters will remember their liking for pork-barrel spending (a universal preference, but understandable in a poor state). Since the Democrats took control of the Senate last year, South Dakota has had a great time in this field: thanks to Mr Daschle's position as majority leader, all sorts of goodies have lately been flowing into the state. Mr Johnson argues that a vote for Mr Thune would be a vote against South Dakotan leadership in Washington and thus put the pork at risk. Mr Thune replies that this race will not be decisive to control of the Senate anyway, because of close contests elsewhere, and that South Dakota would be better served by a balanced team: Mr Daschle plus someone like himself with proven influence in the White House.

In short, the race between two popular and respected incumbents is coming down to an almost visceral choice: my politics or my pork? No wonder it's close.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

A new look at Custer

Too dashing a soldier, but no villain

Oct 10th 2002 | RAPID CITY, SOUTH DAKOTA
From The Economist print edition

Crazy Horse's top scalp was not an Indian-hater

HE DIED 126 years ago, when his 7th Cavalry were routed by Indians at the battle of Little Bighorn in Montana in 1876, but General George Armstrong Custer refuses to lie down. His story still draws 4½m tourists a year to South Dakota's Black Hills, where a small town and a state park are named after him. Until her death in 1933, Custer's widow Libbie painted a gleaming picture of her husband's life. After her death, the revisionists got to work, despite a few counter-attacks such as a 1941 film, “They Died With Their Boots On”. Now the pendulum is swinging back.

Most Indians still detest Custer, and many whites regard him as an arrogant soldier who walked into defeat at Little Bighorn. But the historians are beginning to take a more balanced view. He was spoiled and reckless, says Jack McDermott, a former National Park Service official, but he also had some wonderful qualities. “He killed Indians, but he also helped free the slaves,” is the judgment of Tracy Potter at Fort Abraham Lincoln, a North Dakota outpost where Custer was based in the 1870s.

Custer was one of the foremost explorers of his day. He found a way to the Yellowstone in 1873, and the next year he led the first non-Indian expedition—with 1,000 men and twice as many animals—into the Black Hills, then one of the country's last uncharted territories. This was brave stuff, but unfortunately the discovery of gold in the hills led to an influx of miners, which angered the local Indians. Custer appears to have taken little pleasure in fighting them. His 1874 autobiography, “My Life on the Plains”, expresses admiration for Indians and shows that he understood them better than most whites then did.

Some Indians returned the compliment. Custer employed almost two dozen scouts from tribes, such as the Arikara, that had long been picked on by more powerful neighbours like the Sioux. The Arikara still sing songs that honour Custer and his scouts. And several tribes gave Custer “names that indicated grudging respect, such as Creeping Panther,” says Dakota Goodhouse, who works at Fort Abraham Lincoln and is of Lakota Indian descent. Most Indians, though, continue to despise Custer, especially those who live in the area around Little Bighorn.

The farther one gets from the battlefield, the more passions cool. Fort Abraham Lincoln, about 400 miles away, is a good example of the contemporary balancing act. The park built a replica of Custer's house there in 1988. In the mid-1990s it began drawing more attention to On-A-Slant village, a restored Mandan Indian settlement just feet from the Missouri river. But the park's people remain careful not to denigrate the dashing general. If they made a caricature of him, says Mr Potter, they would diminish the Indians' victory over him.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

Paul Wellstone's appeal

Oct 10th 2002
From The Economist print edition

Can an old-time economic populist survive in George Bush's America?

THE Senate has no more left-wing member than Paul Wellstone, the senior senator from Minnesota. His voting record regularly gets zero from conservatives. “I represent”, he boasts merrily, “the Democratic wing of the Democratic Party.” He is also one of the two or three most vulnerable Democratic incumbents. With the Senate almost tied, the balance of power in Washington hangs partly on his survival. But can he survive?

Some would say yes, just because he represents Minnesota. The state has the longest unbroken record of any state of voting Democratic in presidential elections. Scandinavian iron-miners and German farmers created a distinctive political tradition: egalitarian, co-operative, not socialist exactly but far from laisser-faire (the state indulges in a modest industrial policy). Minnesota has higher taxes than most states, resisted “Reaganisation” longer, and still seems to regard the public sector as a force for good. That is why the fiery Mr Wellstone, a former protesting professor, got elected in the first place. He inherits the tradition of Hubert Humphrey, Walter Mondale and Eugene McCarthy, all Minnesotan icons of high-minded liberalism.

But Minnesota has changed. Farms and mines are being concreted over for suburbs: 50% of Minnesota's voters now live in the Twin Cities of Minneapolis and St Paul. The state chose Al Gore over Mr Bush by the narrowest of margins in 2000. The Democratic Party is melting down, and Green candidates are winning local seats in the party's old strongholds.

An even bigger change is the growth of independents. For years now, more Minnesotans have called themselves independents than Democrats or Republicans. In 1998 the state elected a maverick third-party governor, a former wrestler, Jesse Ventura. A huge number of his backers were first-time voters, registering only on election day. This suggested that Minnesota exceptionalism was not dead. It also confirmed a rightward tilt. Chris Gilbert, a professor at Gustavus Adolphus College, found that 70% of first-time voters voted Republican in other races. In the battle to succeed Mr Ventura, polls split the electorate into three equal parts for the Republican, the Democrat and another centrist Independent. So two-thirds of voters in that race are backing candidates to Mr Wellstone's right.

This ought to bode well for his Republican challenger, Norm Coleman. Mr Coleman was once a roadie with a rock band. He has been a Democrat, too. As mayor of St Paul he transformed the city—known as Moscow on the Mississippi—by attracting new companies and (much more important in Minnesota) a national hockey team. In other words, he gets things done. Mr Wellstone, on the other hand, often uses

the Senate to be obstructive. He was one of a handful of senators to vote against Mr Bush's education reform bill, and one of only three to vote in 1999 against national missile defence. He now says he will vote against the congressional resolution on Iraq. Larry Jacobs, a professor at the University of Minnesota, says Mr Wellstone risks becoming the highest-profile political victim of war talk.

Yet Mr Wellstone has achieved things, too, sponsoring no fewer than 108 laws in the Senate, some in partnership with conservatives. He is not just a confrontational lefty. Despite his doveish record on foreign policy, he is wildly popular among ex-servicemen, having espoused their interests at every opportunity. A fifth of the state's electorate, he claims, has contacted his office at some time during his tenure—an impressive record of constituency service. Mr Wellstone also has one of the best get-out-the-vote machines in the country. This sort of thing could yet make the difference in a race so close that it is, in effect, a tie.

Mr Wellstone also demonstrates how an old-fashioned populist can still compete in George Bush's America: by turning left-wing politics into a metaphor for a buck-the-system appeal to independents. Elections are not necessarily about policy, or bringing home the pork, or long-term trends. Sometimes they are just about personality. So it is turning out in Minnesota. The race revolves around which man voters trust.

Both candidates have an Achilles heel on this point. Mr Wellstone broke a pledge to serve only two terms. Mr Coleman switched parties. In a state where party identification is collapsing, that may seem an excusable fault. But Minnesota's conservative Republicans seem far less prepared to forgive Mr Coleman for having been a Democrat than Mr Wellstone's supporters are prepared to forgive him for clinging to office.

Pressed shirts against firepower

This is part of a broader picture. Mr Coleman was a successful mayor, a skilled administrator and a thoughtful wonk. But, as is the way with mushy centrists, his achievements and policies do not produce a compelling biography during a rough-and-tumble campaign. With his neatly pressed shirts, he looks out of place on a Minnesota dairy farm or down an iron mine. He seems too much the consultant's creation.

Mr Wellstone, in contrast, breathes fire. A 5ft 5in bundle of muscle (curiously, he too was a wrestler, like Mr Ventura, though of a serious kind), he has slowed down a little of late from a mild case of multiple sclerosis, and walks with a limp. But he can still energise a crowd better than anyone in the business. “You know me,” he shouts, jumping up and down. “You may not always agree with me. But you know I will vote my conscience—even on Iraq.” The more awkward the political calculus, the more Mr Wellstone glories in defying it. Despite his left-wing politics, this is an appeal partly independent of ideology, like the appeal John McCain made from the right in 2000.

Mr McCain lost. So may Mr Wellstone. But, if he does, it will not be because of Iraq, suburbanisation, or left-wing politics, pure and simple. It will be because his personal appeal is no longer quite enough to persuade those Minnesotans who disagree with him to give him their support once more.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Divided in Venezuela

A tragic and dangerous stalemate

Oct 10th 2002 | CARACAS
From The Economist print edition

Reuters

Opponents and supporters of Hugo Chavez accuse each other of plotting democracy's downfall. Is Venezuela close to civil war?

Get article background

ANOTHER day, another demonstration in Venezuela's capital. As *The Economist* went to press, thousands of opponents of Hugo Chavez were to take to the streets to demand the president's resignation. For a while after a failed coup attempt last April against Mr Chavez and his “Bolivarian revolution”, it had seemed that the president and his opponents might seek a reconciliation. But the calm proved short-lived. Last week, Cesar Gaviria, the secretary-general of the Organisation of American States, failed to extract any agreement from Mr Chavez to set up talks aimed at bringing forward elections. Once again, Caracas seethes with talk of conspiracies and coups.

Some in the opposition hope the march will be the prelude to a general strike-cum-lock-out to topple Mr Chavez. The government has responded with sabre-rattling of its own. Last month it issued a decree banning demonstrations (and much else, such as selling property) in eight large “security zones” in the capital without permission from the defence ministry. It has harassed dissident army officers, and may be behind a strike this week by some of the opposition-controlled metropolitan police.

Last weekend, Mr Chavez claimed to have uncovered another coup, improbably led by an 83-year-old former foreign minister. In turn, General Enrique Medina Gomez, seen by many as the army's leading dissident, claims that Mr Chavez is trying to provoke just such a rebellion, confident that he can crush it and go on to turn the armed forces into “a popular militia”. On October 9th, General Medina and two colleagues, helped by pot-banging protestors, eluded arrest by intelligence agents.

Two things make Venezuela's renewed political polarisation dangerous. The first is the complete lack of trust between the two sides: each denies the other's legitimacy. Mr Chavez, elected in 1998 and then again under a new constitution in 2000, claims a mandate for change. He tars his opponents as “oligarchical” bad losers, nostalgic for the cosy two-party system that brought Venezuela stability for three decades before falling apart amid economic decline, corruption and voter disillusion. “It's a country where every day the opposition wakes up not thinking how to improve the situation but how to overthrow the government,” says Ali Rodriguez, chairman of the state oil company.

In the opposition's view, Mr Chavez is using the instruments of democracy to impose a dictatorship. Not only did the government manoeuvre to name its friends to the Supreme Court, the electoral council and the posts of auditor-general and public prosecutor. With his aggressive rhetoric against local business, the church, the media and the trade unions, Mr Chavez, it is argued, is inciting attacks on property and on his opponents.

“We've never had such division in the country,” says General Medina. “The vast majority realise that Chavez has taken his mandate for social change and used it for a revolution that takes the country down a road it doesn't want to go.” A leading businessman is blunter. The president is “a criminal, with blood on his hands” whose project is “Cuban communism”, he says.

The second reason why Venezuela's divide has become so dangerous is that both sides are armed. General Medina says that “2,000 to 3,000” members of the Bolivarian Circles, a grassroots organisation set up by Mr Chavez, are armed. They include men identified as having opened fire on a peaceful opposition demonstration in April, killing 19, the action which brought the president's brief ouster (in all, 70 died in these events). Apprehensive opposition supporters have set up armed neighbourhood-watch groups in many middle-class districts.

Dragging the army into politics

Perhaps the most serious of the many mistakes committed by Mr Chavez, who as an army lieutenant-colonel himself led a failed coup in 1992, is to have dragged the armed forces back into politics. This politicisation showed in April. Now, again, it is on open display in Caracas. In July Mr Chavez put officers he hopes are loyal into key commands. Along with General Medina, some 70 senior officers considered disloyal remain on active service but without a job.

So they are taking up politics. Half a dozen officers in full tropical uniform attended a recent meeting of the Democratic Co-ordinator, an opposition umbrella group. This being Venezuela, known for its beauty queens as well as its oil, the meeting shared a conference centre with a fashion show.

And yet, behind all the alarmism, there is equilibrium of a sort in Venezuela. “Both sides overestimate their own strength and underestimate that of the opposition,” says Teodoro Petkoff, a minister in the previous government and now a newspaper editor. But the equilibrium is unstable. “Any minor incident could unleash violence,” says Mr Petkoff. And in the meantime, political tension and government mismanagement are aggravating Venezuela's long, steep economic decline.

“True love” and its absence

Like Argentina, with its past agricultural glory, Venezuela has long imagined that it is rich, in its own case because of oil. That has made Venezuelans, like Argentines, unusually susceptible to populism. But Venezuela's oil is not what it was. A growing population, and lower production and/or prices, mean that oil-export income per head is less than a third of its 1980 level. Poverty has risen steeply.

Venezuelan voters turned to Mr Chavez after the old parties had been obliged, belatedly, to trim the state's largesse. Mr Chavez is now having to do the same. Despite opposition claims that he is a socialist, his economic policy has been fairly orthodox—but ineffective. For three years, it pegged the currency, the bolivar, against the dollar. That brought down inflation, but currency overvaluation wiped out many businesses which could not compete with cheap imports.

Now a new economic team is trying to cope with a sinking currency, rising inflation and a severe recession. “This is a very difficult year,” admits Felipe Perez Marti, the planning minister. Oil income is down, and debt payments are up. The government has cut spending (by 3% of GDP, says Mr Perez). Even so, it is raiding the central bank: it wants the bank to issue it with bolivares equivalent to the rise in the local-currency value of its reserves caused by devaluation. That, say critics, will push up inflation next year.

Mr Perez claims to be pursuing the “fourth way”, or “the state plus the market plus solidarity”. Meaning? “We give importance in the economy to strategic co-operation and true love” (ie. worker-owned companies). Mr Perez has a PhD from the University of Chicago, but is not a typical product of its free-market economics faculty. “I am a theorist of altruism,” he says.

That is not how local businessmen see the government. They “are on the defensive, trying to save what they can,” says Oscar Garcia Mendoza, a private banker. By some estimates, around $15 billion of private capital has fled the country in the past two years, though Mr Perez claims the exodus has now stopped.

Foreign investors have fewer quarrels. Though the government has reversed a previous policy of allowing majority private stakes in oil production, it has opened up refining and the gas industry. Mr Rodriguez, of the state oil company, says he hopes soon to sign contracts for foreign investments in gas worth $4 billion.

Relations between Mr Chavez and the United States have improved somewhat since April, when the Bush administration did not condemn the coup until after it had failed. The government has made it clear that it will remain a reliable oil supplier, whatever might happen in Iraq. For its part, the United States has publicly warned both government and opposition against unconstitutional steps.

Mr Chavez's great folly is to have used his enormous early popularity not to change Venezuela to benefit his supporters among the poor but to perpetuate his own power. Now he is backed by only one Venezuelan in three (though that is more than any single leader of the fractious opposition). His current term does not end until 2006; he talks of remaining president longer. That encourages coup-plotting.

But the constitution allows for a referendum on Mr Chavez's rule next August. Moderates on both sides now recognise that pushing for some sort of vote, be it a referendum or fresh election, is the best course. To be meaningful, it would require a reform of the electoral register, under international supervision. But are there enough moderates? Despite its moments of comic opera, Venezuela's political stand-off has already been marked by tragedy. Far worse could follow unless its politicians learn to talk to each other.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trinidad's election

A mandate for Manning

Oct 10th 2002 | PORT OF SPAIN
From The Economist print edition

A triumph for electoral politics

AP

The premier gets his finger out

AT LAST the deadlock has been broken. On October 7th, in Trinidad's third election in two years, Patrick Manning's People's National Movement (PNM) won a narrow but clear majority, with 51% of the popular vote and 20 out of 36 parliamentary seats. With steel bands and waving flags, Mr Manning's mainly Afro-Caribbean supporters danced until early morning.

Mr Manning had been prime minister since last Christmas. But parliament, tied 18-18 between the PNM and the mainly Indo-Trinidadian United National Congress (UNC), could not function. Now Mr Manning, prime minister from 1991-95, again has a mandate. His avuncular manner goes down well in a country shaken by three years of non-stop politicking. One of his first jobs will be to nominate a successor to Arthur Robinson, Trinidad's shrewd president, who retires soon. On past form, Mr Manning will choose a peacemaker.

The election marked a perhaps final defeat for Basdeo Panday, the country's first Indo-Trinidadian prime minister. Repeated allegations of corruption split his cabinet a year ago. Mr Panday himself is due in court next month, charged with failing to declare a London bank account to his own government's ethics commission. In office, he quarrelled with the chief justice, the president, and the media. In defeat, the flamboyant, often confrontational Mr Panday struck a conciliatory note. “We all have to travel in the same taxi,” he said, referring to Trinidad's ethnic political divide. He says he will soon resign; his replacement may be more moderate.

A few influential Trinidadians hoped for another hung parliament, to force cross-party co-operation and constitutional reform. In fact, a grand coalition would have been lucky to last ten minutes. But there is much for the politicians to co-operate about. Rich in oil and gas, Trinidad, rather than Jamaica (which has its own election next week), is the English-speaking Caribbean's biggest economy. Unlike Guyana, whose racial split is often tinged with violence, Trinidad has done well to come through the past two years in peace. And even Venezuela, just seven miles (11km) away across the water, might take note that elections can heal political deadlock.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil's presidential election

Sweating into a second round

Oct 10th 2002 | SAO PAULO
From The Economist print edition

The voters require the presidential front-runner to spell out his policies

FOR once, to call an election a celebration of democracy would not be an overstatement. From remote Amazonian forest settlements, where tribesmen in elaborate head-dresses queued patiently to vote, to the grim *favelas* of Sao Paulo's urban jungle, to the millionaire condos along Rio's Barra da Tijuca beach, on October 6th a hugely diverse, continent-sized country of 115m voters came together in the world's biggest all-electronic election.

Despite technical hitches that delayed the close of polling by several hours in places, and despite isolated reports of political violence and vote-buying, it was a great success. No endless recounts and rows over "pregnant chads" here. Within a few hours, the diskettes from almost all electronic booths had been scanned and the results were out. Belying fears that weak economic growth and continuing social problems are undermining Latin America's faith in democracy, in this the region's largest country only 18% of voters stayed at home, down from 21% in the 1998 presidential election. Blank and spoiled votes totalled just 10%, down from 19% in the last (only partly-electronic) vote.

The voters stopped just short of electing as president Luiz Inacio Lula da Silva, the veteran leader of the left-wing Workers' Party. In this campaign, Lula has donned a business suit, formed an electoral pact with a small conservative party and swapped the fiery radicalism that lost him the past three Brazilian elections for moderation and an image of "love and peace". Final polls had put him close to outright victory. But at the last moment (perhaps due to his stumbling performance in a televised debate), some voters apparently had second thoughts. Having won 46.4% of the valid votes, Lula must now sweat his way through a run-off ballot on October 27th against Jose Serra, the candidate of the centre-right coalition of Fernando Henrique Cardoso, the outgoing president (who cannot stand again).

Though Mr da Silva won almost exactly twice as many votes as Mr Serra, the run-off is not quite a foregone conclusion. That is no bad thing. Mr Serra would perform a useful service if he used television debates over the next fortnight to force Mr da Silva to spell out his economic policies more clearly—especially since Lula and his party opposed many of the economic reforms that they now promise to uphold. Using such televised debates to expose Mr da Silva's weak grasp of policy details is probably Mr Serra's best hope.

Both must scrap for the votes of two slippery populist candidates, Anthony Garotinho, until recently the governor of Rio de Janeiro, who got 18%, and Ciro Gomes, a former governor of the north-eastern state of Ceara, who got 12%. Mr da Silva has invited their small, soft-left parties to join him in government. Mr Gomes quickly pledged "unlimited" backing for Mr da Silva; Mr Garotinho too was reported to be about to endorse Lula.

Since both Mr Gomes and Mr Garotinho stood as opposition candidates, Mr da Silva argues that he will win the backing of all the "76% of Brazilians who voted against the current economic model". But many of Mr Garotinho's and Mr Gomes's voters are quite conservative—especially the evangelical Christians who are Mr Garotinho's main support base. They might be more attracted to Mr Serra.

As if to underline that a new election is starting, Mr Serra sacked his campaign manager. To stand a chance of overturning Mr da Silva's huge lead, he must do two things, according to Gaudencio Torquato, a political scientist at Sao Paulo University. First, soften his abrasive image by getting out on the streets and mingling with the people, as Mr da Silva has done to great effect. Second, identify himself more closely with Mr Cardoso. Despite Brazilians' desire for change, the president remains personally quite popular. Mr Cardoso's enthusiastic backing at the hustings would help Mr Serra. But the president seems reluctant to sour his relations with Mr da Silva, his more probable successor.

The mood for change also showed in state and congressional elections. Several conservative local political bosses were dumped. They included Fernando Collor, a former president forced out in 1992 over corruption allegations, who failed to make a comeback as governor of his home state of Alagoas. Paulo Maluf, a former governor of Sao Paulo state, failed to make a run-off for his old job.

Leftish candidates gained ground: the Workers' Party beat its most optimistic forecasts. Although it won only two of 27 state governorships outright, it made it into a run-off in eight more. In Congress, it should be the largest party in the lower house (despite the electronic vote, the Electoral Tribunal takes several days to confirm the allocation of seats under Brazil's complicated proportional representation system). But while fortified, Lula's party will still be outnumbered in Congress and in the governorships by the combined strength of Mr Cardoso's coalition parties.

So if he wins, Mr da Silva would be wise to seek a broad alliance including all or part of Mr Cardoso's coalition. David Fleischer, a political scientist at Brasilia University, reckons that a President Lula could win over 309 deputies in the 513-seat lower house and 48 of 81 senators. That would provide a comfortable majority, though short, in the Senate, of the three-fifths required for constitutional changes.

Achieving such a coalition, appointing a credible finance minister and Central Bank president, and pledging to press on with some long-delayed economic reforms might persuade nervous investors that a President Lula could handle Brazil's huge public debts. That would be helpful: Lula's big lead prompted further falls in Brazil's financial markets this week. But investors might note that the next government will be constrained by a centrist Congress. And two hard-left presidential candidates, preaching a rupture with the IMF and financial orthodoxy, scraped barely 0.5% of votes between them. Brazilians voted for change, but *não muito*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Pearl river delta

A new workshop of the world

Oct 10th 2002 | HONG KONG
From The Economist print edition

Knitting together the world's most dynamic industrial region

Get article background

THE 46m people living in the delta of southern China's Pearl river have of late been entertained by some noisy sparring between two majestic tycoons from Hong Kong, just east of the estuary. In one corner is Gordon Wu, an entrepreneur who got rich from mighty infrastructure projects across Asia before the 1997 crash. Mr Wu nowadays dreams about building an 18-mile (29km) bridge to connect Hong Kong to Macau and Zhuhai on the estuary's western side.

In the other corner is Li Ka-shing, a legendary investor who runs, among many other things, most of Hong Kong's container port and the river-barge trade that feeds it, as well as a younger and faster-growing port in the eastern delta. A road link across the delta would damage these interests, and Mr Li would be happiest without it, even though he claims to oppose not the bridge as such, but only government incentives that favour his rivals.

Almost lost in the noise of the debate are two much larger points. One is the steady emergence of an industrial region so huge as to transform global trading patterns and investment flows. Even without counting rich and autonomous Hong Kong, the delta draws in one-quarter of China's foreign direct investment and generates one-third of its exports. It has become the contemporary equivalent of 19th-century Manchester—a workshop of the world. From motherboards to watches or television screens, chances are that most of the gadgets in western homes were made in the delta by companies from Taiwan or Hong Kong.

The other big point, though, is the difficulty of knitting together this macro-region to allow it to achieve its full potential. This involves both physical and bureaucratic challenges. Mr Wu's bridge, for instance, addresses the first of these, but might easily yet founder on the second. Crossing the waters in question requires approval from the governments of two “special administrative regions” (SARs), Hong Kong and

Macau; from a “special economic zone” (SEZ), Zhuhai; from Guangdong province; and from the central government in Beijing. “It's like having five mothers-in-law,” sighs Mr Wu.

Both the delta's economic dynamism and its administrative nightmares stem from its convoluted recent history. In 1978, when China began opening its economy, Hong Kong was a foreign colony and an Asian manufacturing “tiger”. Guangdong was close but separate—a poor and backward acreage of farmland, intentionally ignored by Beijing's central planners, who considered it dangerously close in culture and geography to capitalism. Shenzhen was nothing but a sleepy village of 20,000 fishermen alongside a clean river. Cities such as Dongguan, which now boasts a population of 1.3m, did not even exist.

This changed slowly during the 1980s. Hong Kong surrendered its factories to cheaper locations in South-East Asia and became an offshore financing centre for the new tigers. In Guangdong, the areas next to Hong Kong and Macau became the SEZs of, respectively, Shenzhen and Zhuhai, with looser regulation and taxation; these attracted investors from Hong Kong and Taiwan. But the region's dynamism was still centred on South-East Asia, while the delta remained a limited communist experiment in market reform.

In 1992, however, while touring the southern provinces, Deng Xiaoping, then China's paramount leader, gave his blessing to their economic transformation. Within a few years, says Christine Loh, who runs a Hong Kong think-tank, businessmen from Taiwan and Hong Kong in effect “colonised” the delta. Cities such as Dongguan exploded—endless, depressingly grey sprawls of small factories, massage parlours and karaoke bars, staffed largely by millions of cheap and illegal migrant workers from China's inland provinces. Downtown Shenzhen, now home to 4m, looks like the cityscapes in “Bladerunner”, while its western suburbs look like Silicon Valley. A network of river ports, container ports, airports and highways has grown at a staggering rate (see map).

Much of the delta today resembles Taiwan a generation ago, says Arthur Kroeber, an editor of the *China Economic Quarterly*, a research publication. Its industrial structure is best understood not as part of China's continental economy (still mostly state-owned and with little economic contact with the outside world), but as a link in the global supply chains of multinational corporations. It is a tiger, in other words. And an optimistic one at that. Increasingly, Hong Kong's movers and shakers believe they are less tied to Asia's broad future than tightly to the delta's.

That, however, requires better integration. It is already happening in some areas. A typical Hong Kong business now does its marketing, managing and accounting at home, where the lawyers and bankers are clean and good, and its manufacturing upstream on the mainland, where the workers are cheap. At weekends, golfers take boats up the delta to a dozen new golf courses. Hong Kong's shoppers go to Shenzhen for fake Gucci bags, while Shenzhen's new rich come to Hong Kong for real ones.

Elsewhere, integration is working less well. Almost 100m people a year cross the border between Hong Kong and Shenzhen, making it the busiest in the world. Most of them are funnelled through a checkpoint at Lo Wu in a process that is unpleasant at best and dangerous at worst—in August alone, 19 people were injured in the human stampedes. Trucks carrying containers to and from Hong Kong's port cross the border at another checkpoint, Lok Ma Chau, and often have to queue for as long as eight hours before getting customs clearance.

Canning Fok, managing director of Li Ka-shing's flagship company Hutchison Whampoa, says such bottlenecks are bigger problems than the travel times of containers by land or water. So, he implies, why talk about bridges? Many in Hong Kong and Guangdong agree and want to make the delta's borders more porous. But whether the Wu or the Li view prevails, and whether or not the bridge is built, fewer and fewer sympathise with dissenters like Anson Chan, a retired chief of Hong Kong's civil service, who sees Hong Kong's separateness as an advantage, and urges caution in its dismantling.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Kashmir and Pakistan

One election that wasn't rigged

Oct 10th 2002 | DELHI
From The Economist print edition

With polls out of the way, is it now time for India and Pakistan to talk?

Get article background

ELECTION rigging got India into trouble in Jammu & Kashmir, its only Muslim majority state, but it will take more than one relatively fair election to get India out. Kashmiris took up arms against the Indian government after the state's 1987 elections, widely regarded as a stitch-up by the National Conference, the current ruling party. Pakistan, which claims Kashmir as its own, has been fomenting violent opposition to Indian rule there ever since.

AP

Your ballot please

Against this history, the state elections that ended this week are a breakthrough. Turnout was a respectable 44%, even though anti-Indian militants assassinated candidates and threatened voters. Independent observers judged the voting the fairest in a quarter-century. The results change the state's political complexion.

As *The Economist* went to press, the National Conference, led by Kashmir's main political dynasty, the Abdullah family, seemed to have lost power, though it may remain the largest party. Omar Abdullah, the young scion who had recently assumed leadership of the party, could not even win his seat. The gainers are Congress, India's main opposition party, which did well mainly in the Hindu-majority Jammu region, and the People's Democratic Party (PDP), whose base is the Muslim-dominated Kashmir Valley. They are now expected to try to form a coalition government. India can congratulate itself on having held an election capable of evicting an unpopular party.

But it is not certain that the results will quell discontent among Kashmiri Muslims, still less that they will ease tensions between India and Pakistan, whose armies have been mobilised for war since December. The mood will depend on whether the new government can better Kashmir's dismal human-rights record, cut corruption and spur development.

The central government in Delhi now faces weighty decisions. Does it treat the election as proof that Kashmir is a normal part of India, apart from violence sponsored by Pakistan? That is what hardliners in India's ruling Bharatiya Janata Party (BJP) would like to do. Or will it open serious talks on conferring more autonomy on Kashmir, and if so, with whom? The newly elected government may speak for the

state's people, but the PDP will argue for involving at least some members of the All Party Hurriyat Conference, the main grouping of separatist parties, which boycotted the vote. A number of candidates linked to one of the Hurriyat's moderate members won seats, bringing pro-independence voices into the assembly.

The second big issue is how to deal with Pakistan. India accuses Pakistan of trying to derail the election through violence, thus failing the test India set for resuming dialogue. Atal Behari Vajpayee, the Indian prime minister, this week mocked Pakistan's president, Pervez Musharraf, as a “self-annointed king”.

Yet Pakistan was holding elections of its own on October 10th. Three years after staging a coup, General Musharraf is to hand most of his power to an elected government—though probably only in theory. With both elections out of the way, India will now face much greater international pressure to talk. There is speculation that it will soon scale down its military mobilisation. But further progress may have to await yet another election, in the state of Gujarat, where Hindu mobs killed more than 1,000 Muslims earlier this year. The governing Hindu-nationalist BJP hopes its record in a state it controls will help it win the election, due by early next year. Until then, it may not pay to be too soft on Muslims, whether Kashmiris or Pakistanis.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

China and North Korea

Don't get too capitalist, comrade

Oct 10th 2002 | SHENYANG
From The Economist print edition

A mysterious arrest in north-east China threatens to poison relations between two of the world's last communist states

James Miles

Yang banged up

IN THE public parlance of China's Communist leaders, North Korea and China are “as close as lips and teeth”. But in the past week China has come as close as communist etiquette allows to a row with its maverick neighbour. Just as North Korea was embarking on a venture to create a capitalist enclave on its border with China, the Chinese police detained the businessman appointed to run the new zone on suspicion of economic crimes. The episode has exposed an enormous communications gap between the two countries.

What vexes China is the decision by North Korea's leader, Kim Jong Il, to choose Yang Bin, a Chinese-born horticulturalist turned property magnate with Dutch citizenship, as governor of the Sinuiju Special Administrative Region. Mr Yang is suspect partly because he acquired his Dutch citizenship by taking advantage of rules that were relaxed in the Netherlands after the 1989 Tiananmen Square massacre in Beijing. Just as bad in China's eyes, though, was North Korea's failure to seek Chinese approval of the appointment before suddenly announcing it on September 23rd. Mr Yang says he had known about the Sinuiju project since January and had briefed officials in the north-eastern Chinese province of Liaoning, where his business is based. Remarkably, it seems, North Korean leaders did not discuss it with their counterparts in Beijing, or ignored their advice.

The idea of a capitalist zone in Sinuiju appeared to be a leaf from China's own book—indeed, even bolder than China's decision in 1980 to establish what it called “special economic zones”, in which capitalist-style economic policies were introduced. Unlike the Chinese zones, the Sinuiju region would be run by a foreigner, use foreign currencies (American and Chinese), pay no tax to the central government, and have a separate legal system. Mr Yang calls it a “daring” decision by North Korea's Mr Kim aimed at demonstrating that the hitherto sealed-off nation “accepts capitalism” and wants to integrate itself with the rest of the world.

The 39-year-old Mr Yang might have appeared well qualified for the Sinuiju job. The North Koreans desperately need entrepreneurial skill, and Mr Yang seemed to have plenty. *Forbes* magazine listed him last November as the richest man in China, with an estimated wealth of $900m.

But for weeks before Mr Yang's appointment it was clear that something was amiss. The share price of one of his main assets, a Hong Kong-listed company, Euro-Asia Agricultural Holdings, in which he holds a majority stake, fell from HK$1.82 in November to HK$0.38 at the end of September, when trading was suspended. Investors were unsettled by reports in China that Mr Yang was suspected of tax and land-use violations. They also feared money from the company might be siphoned into Mr Yang's other main asset, Holland Village—a sprawl of windmills and residential and commercial buildings in Dutch style under construction on the edge of Shenyang, Liaoning's capital.

This investment, they thought, might suffer the fate of many a Chinese theme park and become a colossal folly. Now the fate of the park, the zone and Mr Yang himself are all equally unclear.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

America and North Korea

Parting ways

Oct 10th 2002
From The Economist print edition

An undiplomatic opening

AFTER three days with one of the founder-members of President George Bush's “axis of evil”, James Kelly, the State Department's top East Asia official, left North Korea on October 5th tight-lipped. Frank, but useful, was all he would say of his talks, the first at such a high level since Mr Bush's election. “High-handed and arrogant” was how a North Korean spokesman later summed up Mr Kelly's approach. There could be more plain-speaking when Mr Bush meets Japan's Junichiro Koizumi and South Korea's Kim Dae-jung at the Asia-Pacific Economic Co-operation summit in Mexico later this month. Both men have lately been warming up to North Korea, but know this cannot go far if America won't go along.

North Korea is miffed at being kept on America's list of evil-doers. Mr Kelly made clear that it would have to satisfy America's concerns on a wide range of issues, especially its suspected development of nuclear, chemical and biological weapons, and sales of ballistic missiles, but also its conventional military threat to South Korea and its poor human-rights record, if it wanted an improvement in relations. Any hopes that the resumption of ministerial contacts with South Korea and talk of eventual Japanese aid and diplomatic relations in the wake of Mr Koizumi's surprise visit to Pyongyang last month might soften America's demands were dashed. North Korea was this week lambasting America's “unilateral hardline policy”—a clear attempt to drive wedges between America and its two best allies in the region.

But Mr Kelly also had other audiences, one of them watching sceptically from home. Though no date for more talks was agreed, he insists the administration is committed to dialogue with the North. But he could offer little more than a list of America's known demands because the administration is divided on where to go from here. Pressure on North Korea to cut back its troops, for example, could add to pressure for America to trim its Korea-based forces too.

Similarly, some senior American officials think America should reconsider a 1994 deal, which would provide North Korea with two western-designed nuclear-power reactors in return for a verified end to its suspected plutonium production. Mr Koizumi had returned from his trip to Pyongyang with a promise that North Korea would keep to its side of the bargain, yet the International Atomic Energy Agency, whose job it would be to check that no secret bomb-building had been going on, has not heard a peep out of the regime there. The deal's critics would anyway rather terminate it than see even civilian nuclear technology and expertise transferred to such a hostile regime.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

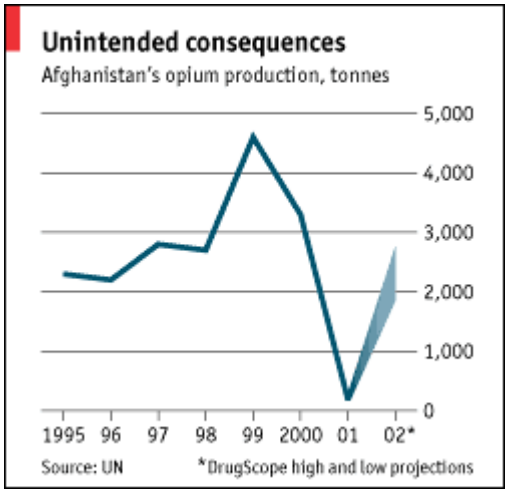
Afghanistan's opium

A bumper crop

Oct 10th 2002 | KABUL
From The Economist print edition

The fall of the Taliban has seen a big increase in poppy planting

Get article background



AT A seminar on drugs held recently in Nangarhar province, in south-eastern Afghanistan, 55-year old Khan Zaman, a farmer, puts it in a nutshell. “All our life depends on income from poppy, it is the best cash crop. If there are alternatives we will leave poppy. We accept the orders of the government, but there are problems for us.” When asked about plans for this season's planting he says, “I will grow whatever the people cultivate; if it is poppy, if it is wheat.”

This week, the United Nations Office for Drug Control and Crime Prevention (ODCCP) was due to release figures on this year's harvest. According to projections recently issued by Drug Scope, a British charity, output for 2002 is expected to be between 1,900 to 2,700 tonnes of opium resin, a huge rise on the 185 tonnes produced in 2001 during the Taliban regime's final year in power (though some may have been quietly hoarded).

In the future, the poppy problem will be a good indicator of President Hamid Karzai's hold over the country. At the height of their powers, the Taliban boasted a 94% reduction in output between their July 2000 decree banning poppy cultivation and last year's tiny harvest. It won them praise from the West, but that was swept away after September 11th.

With Afghan poppies accounting for around 80% of the supply of heroin in Europe, western leaders consider their reduction a priority. Under an agreement worked out by the G8 (the seven richest industrialised countries, plus Russia), efforts to improve drug control in Afghanistan are being led by Britain. It is working with both the Afghan government, which has just set up a National Security Council (NSC), and the ODCCP.

Part of the NSC's remit is to tackle the production and trafficking of heroin. But mechanisms are not yet in place at provincial level to achieve this. Even if they were, regional leaders, many of whom have benefited from opium trafficking in the past, are likely to object to any interference.

The ODCCP aims to bring drug control into the mainstream of development assistance, focusing on law reform, the creation of an effective police force and, most important but most difficult of all, the development of alternative sources of income for Afghanistan's poppy farmers.

Finding money for all this is a problem. By last month, less than half of the $1.8 billion committed to the reconstruction of Afghanistan for 2002 had been disbursed, and most of that has been used to pay for emergency projects such as resettling refugees, rather than reconstruction. Little has been left for longer-term programmes, and nor are there institutions available to absorb it even if it were.

According to UN officials,there are obvious flaws in the existing schemes. A kilogram of opium is at today's prices worth around $300 to a farmer, so that with an average harvest of 50 kilos per hectare, he can expect to bring in around $15,000 per hectare, or $6,250 per acre. The cash scheme now in place offers a tenth of that.

The disincentives to growing alternative crops are formidable. Roads and irrigation channels need rebuilding, and Afghanistan's drought, now in its fourth year, makes the cultivation of crops needing more than minimal water, such as wheat, near-impossible. Wheat is also expensive to transport and to store. Poppies require little water to grow, and the harvested resin can be kept for years before being processed into heroin. Besides, the returns for wheat, at around $60 per hectare, are minuscule compared with poppy. That is a problem that is getting worse: as refugees return to their homes, there are growing pressures on land. So when planting is due to proceed in a few days, Khan Zaman, still concerned about putting food on the table for his children, may look to see what his neighbours are doing, and join them in planting poppies.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Nepal

A royal coup?

Oct 10th 2002 | KATMANDU
From The Economist print edition

Nepalis seem happy that their king has sent their prime minister packing

Get article background

THERE was a rare consensus this week among Nepal's politicians that King Gyanendra had gone against the spirit of the country's 1990 constitution when, on October 4th, he dismissed the elected government on the grounds of incompetence. Although the palace denies that the move was a royal coup, the king has officially assumed executive authority until further notice. Yet in what a jaded electorate has come to see as typical behaviour, Nepal's party leaders are now busy jostling for position in the next administration, rather than upholding the sacred trust they claim was violated.

Gyanendra Bir Bikram Shah, Nepal's 12th king, ascended the throne in June 2001 after his nephew, Crown Prince Dipendra, murdered almost all his family in a crazed palace massacre. He has reigned over a country beset by Maoist rebel violence, which in six years has claimed the lives of 5,000 people and virtually destroyed the tourism industry, the country's top foreign-exchange earner after remittances from abroad. Exports are negligible, and little of the outside world's generous dollops of aid can be spent because the Maoists and the Royal Nepal Army are battling in the countryside where most of the poor live.

The ousted prime minister, Sher Bahadur Deuba, did little to improve the situation, and few would disagree with the king's conclusion that his administration was not much good. In May, faced with rebellion within his own party, Mr Deuba dissolved parliament and called elections for November. Last month, however, he agreed with his opponents that Maoist violence would make voting impossible. Citing a vague clause in the constitution that calls upon the king to “resolve any difficulties”, he asked him to postpone the polls. The king—reportedly furious with a man once seen as his protégé—instead used the clause to send Mr Deuba packing. The politicians were stunned, but most ordinary people seemed pleased that their new king had moved so decisively.

It looks as though Nepalis are fed up with politics as usual. Since the introduction of multi-party democracy 12 years ago, there have been more than ten changes of government. King Gyanendra says he will return to being a constitutional monarch once a clean, relatively apolitical administration is in place to organise elections and start peace talks with the Maoists. For now, Britain and America, the two most closely-involved outsiders, are giving him the benefit of the doubt—while quietly insisting that he make his peace with the politicians as soon as possible.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Rwanda withdraws from Congo

A long step towards peace

Oct 10th 2002 | KIGALI AND KINSHASA
From The Economist print edition

AP

But more goodwill is needed if Congo is to be put together again

Get article background

IN RUBBER boots specially polished for the occasion, the last Rwandan soldier to leave Congo stepped back over the border into his home country. Cameras whirred, Rwanda's top general made a gracious speech, and Africa-watchers were amazed. Last month, when Rwanda's leaders promised to withdraw their troops from eastern Congo, few people expected them to honour that promise.

But they did. With a speed and efficiency rarely seen in these parts, they loaded more than 20,000 men and countless tonnes of hardware on to planes and trucks and, in a whirl of red dust and raucous dancing, they were gone. Last month, Rwanda controlled an area of Congo 27 times its own size. This week, nothing.

Events are moving so fast in Congo that observers struggle to follow them. For the past four years, the country has endured a war of exceptional cruelty. Most of Congo's neighbours sent armies into the melée, and bands of tribal gangsters took part, murdering, raping and pillaging. Ceasefires were signed and promptly ignored. But the latest pact, signed in Pretoria in July, was different. Most of the foreign armies in Congo have actually pulled out.

Among the armies that came to Congo to support the government, Namibia withdrew last year, and Angola has been quietly disengaging since its own civil war ended in April and it no longer had to worry about its rebels using Congo's jungles as a rear base. Zimbabwe has pulled out most of its men, leaving enough behind to protect Joseph Kabila, Congo's president, and the diamond mines that Zimbabwe wrung out of Mr Kabila's father in return for saving him from the Rwandans (he was later assassinated).

Among the foreigners who fought against the Congolese government, the Rwandans and Burundians are gone, and only one battalion of Ugandans remains, at the UN's request, to keep the peace in Bunia, a

turbulent north-eastern town.

They've gone. What now?

For Congo's beleaguered people, this is cause for celebration. “We are glad to see the back of the Rwandans,” said Antoine, an old man in Kongolo, a frontline town, as he picked his way across a road strewn with ripe mangoes, “We were not free so long as they were here.” That is putting it mildly. But Antoine summed up the fears of virtually all Congolese when he added: “We have no idea what will happen now.”

Much will still depend on Rwanda. The Rwandan army first invaded Congo because the Congolese government was arming and sheltering many of those responsible for the 1994 Rwandan genocide. Until these killers were disarmed or killed, Rwanda's leaders argued, there was a risk that they might come back and try again. Many outsiders sympathised.

But as Rwanda's occupation of eastern Congo dragged on, and reports multiplied of atrocities and systematic looting, Rwanda lost the world's sympathy. South Africa, the regional superpower, together with countries giving aid to Rwanda, urged it to make peace. Under pressure, it did. And now that it has pulled its troops out, it has regained the moral high ground.

The onus is now on the Congolese government to fulfil its side of the bargain. Under the terms of the Pretoria pact, it has to disarm the “negative forces”, as the *génocidaires* are euphemistically known. It has deported some, but many more remain. If they threaten Rwanda again, Rwanda would have reason to re-invade.

A more immediate fear is that the sudden withdrawal of foreign troops will create a power vacuum, and resultant chaos. Some Rwandan officials seem to relish the prospect. “We have decided to show the world that, far from being the cause of [Congo's] problems, our presence was a stabilising factor,” said one.

Already, there are ominous signs. In Kindu, as the last Rwandan aircraft chugged away, the Mai-Mai, a tribal militia, came out of the bush and entered the town to a warm welcome from the locals. Two hours later, bullets were flying and the townsfolk were fleeing, as Mai-Mai warriors fought members of a rebel group the Rwandans used to prop up. In Bunyakiri, another eastern town, unidentified gunmen seized control as soon as the Rwandans left. But in other areas, local peace initiatives seem to have succeeded.

That said, eastern Congo is still unspeakably violent. The government in Kinshasa has not really been able to control it since colonial times. Foreign armies have undoubtedly made matters worse, but their departure will not necessarily heal the region. In Bunia, for example, the ethnic mayhem the Ugandans are staying behind to police was partly of their own making. They strove to divide and rule, with awful consequences.

Last month, militiamen from the Lendu tribe, with painted faces and leaf circlets in their hair, broke into a hospital near Bunia, where many of the staff and patients were from the rival Hemas, a tribe allied to the Ugandans. The Lendu warriors went from bed to bed, cutting up the occupants. By the time they had dragged out the children hiding in the roof and torched a nearby village, they had killed 1,000 people.

South Africa says it will send 1,500 soldiers to Congo to try to keep the peace. It has also brokered quiet talks between the government, rebels and the non-violent opposition. Reassembling Congo is a daunting task. But it was a task that had to start somewhere.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Hamas and its aims

Thriving in the flames

Oct 10th 2002 | KHAN YUNIS
From The Economist print edition

With every Palestinian death, Hamas grows stronger

Reuters

So long as the battle lasts

THE goal, as Israeli tanks lumbered into Khan Yunis on October 7th, was to flush out Hamas leaders and their "terrorist infrastructure" in Gaza as ruthlessly as the Israeli army has crushed the Palestinian Authority (PA) in the West Bank. But the prey eluded the hunters. Instead 16 Palestinians were killed in the densely populated town in southern Gaza, including eight people slain by a helicopter missile while they cowered outside a mosque.

Ariel Sharon regretted the civilian losses but claimed the invasion a success, and promised more such operations in Gaza. Palestinians too are convinced that the carnage in Khan Yunis was a dry run for a full-scale Israeli invasion of Gaza, possibly when the world is distracted by an American attack on Iraq.

These are not their only fears. There is also intra-Palestinian killing. The same day, a PA police colonel was abducted and killed by 20 Palestinians dressed in police uniforms. The officer had been accused of authorising police fire that killed three Palestinians during a Hamas demonstration in defence of Afghanistan last year. The family of one of the dead demanded then that the PA bring the colonel to justice. The PA tarried. On October 7th, the anniversary of the killing, revenge was exacted.

The PA said the abductors were "affiliated to Hamas". Hamas denied all involvement. Over the next two days, PA police forces killed four Hamas men, while Hamas lobbed the occasional grenade at police stations. By October 9th the tension had calmed but there was no reconciliation between the PA and its Islamist adversary. The PA wants Hamas to "extradite" the killers to its custody. Hamas so far has refused because "the law must be applied to the police and not just to citizens".

Hamas's defiance of the PA will almost certainly continue. Two years into the *intifada*, the Islamic group is now a dominant power in the occupied territories, and nowhere more than in the penurious, besieged towns and refugee camps of Gaza.

It owes its ascent to Mr Sharon's emphasis on a military solution, Israel's attacks on the PA and its subsequent collapse, the divisions within Yasser Arafat's Fatah movement, and public support for Hamas's strategy of armed struggle within the West Bank and Gaza, and suicide attacks inside Israel. The result is less a party in opposition to the PA's leadership than a movement bent on establishing an alternative to its crumbling order.

In August, the PA's police forces gingerly tried to arrange a ceasefire in Gaza along the lines of the truce that has more or less held in Bethlehem. It was ignored by Hamas, which continued with mortar attacks against army bases and Jewish settlements, and suicide bombs in Israel. Some of these operations were done singly, others in concert with militias belonging to Fatah, Islamic Jihad or the Popular Front for the Liberation of Palestine.

Also in August, the Palestinians made a sustained effort to agree a common policy for the *intifada*. Fatah wanted a clear acknowledgement that the goal of the national struggle was the establishment of a Palestinian state in the West Bank and Gaza, and that resistance, armed and popular, should be confined to these areas. It also wanted a national unity government to be formed ahead of any new elections.

Hamas demurred on all three counts, but the critical divide was on goals. It agreed that the immediate

aim was to end the occupation, but it refused to relinquish national, religious and refugee claims to land that was part of the Palestine mandate but is now Israel. “The *intifada* is about forcing Israel's withdrawal from the 1967 territories. But that doesn't mean the Israel-Arab conflict will be over,” said Aziz Rantisi, Hamas's political leader in Gaza.

“Hamas's struggle in Palestine has become the flame of the Islamist movements everywhere,” said a secular leader involved in the August talks. “So long as the flame is kept alive, the Islamists can rally the masses to their cause. Our aim is more modest. We want to be free.” Left undimmed, it is a fire that would probably consume all prospect of a two-state solution to the conflict and certainly wipe out what remains of the PA.

Is there any way Hamas can be domesticated as a loyal Palestinian opposition rather than a mutinous one? Palestinians are convinced it cannot now be tamed by repression, or by ceasefires aimed at rescuing a Palestinian regime in which Hamas has no stake, let alone by declarations from the battered ruins of Mr Arafat's headquarters in Ramallah. Any remedy, they say, must now come from outside.

Hamas, say other Palestinians, will remain irrepressible until there is pressure on Israel to lift the blockades and curfews that deny Palestinians any semblance of normal life. Also, until there are elections and a genuine reform process to convince Palestinians that there are other ways to liberate their country than through its destruction. Above all, Hamas will retain its power until there is a peace process which offers a serious international pledge that one day the occupation will end.

Hamas is confident that such international rescue will not come. And Mr Sharon seems set on ending the *intifada* by military means. Between them, they have made one thing clear. “With every Palestinian death, Hamas grows stronger,” said a Palestinian in Khan Yunis.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Yemen and the war on terrorism

Who dunnit?

Oct 10th 2002 | AMMAN
From The Economist print edition

A ship's electrical fault, Yemenis hope

WAS it merely coincidence that a French oil tanker exploded off the coast of Yemen within hours of a threat, apparently by Osama bin Laden, to cut off the West's "economic lifeline"? No, say Mr bin Laden's followers, relieved at evidence suggesting that their cause is not lost.

Yemen, they had long predicted, would be the next front in his war on American might. They had noted how Mr bin Laden had ordered his 22-year-old Yemeni wife, together with a host of his companions, to flee Afghanistan for his ancestral homeland. They had mused at video-recordings displaying Mr bin Laden's penchant for Yemeni tribal fashion, replete with a wide Yemeni belt and traditional dagger.

Yes, just a coincidence, say Yemenis, desperate to avoid an American venture into the Yemeni hinterland where remnants of al-Qaeda may be hiding. Hapless officials in Sanaa suggested that the cause of the blast that crippled the *Limburg* on the eastern Yemeni coast might perhaps have been an electrical short-circuit. But *Lloyd's List* has squashed that view by saying that the explosion was "more consistent with that of a terrorist attack".

Yemeni ministers are past-masters of obfuscation. When a Yemeni dinghy loaded with explosives rammed an American destroyer, the USS *Cole*, two years ago, President Ali Abdullah Saleh continued to insist five days after the event that it was not an attack. When a Yemeni chucked a grenade over a fortified American embassy wall, state radio pronounced him deranged. And when gunmen opened fire outside the British embassy last month, killing five people, ministers muttered that it was just a brawl at a wedding.

But in August, Yemeni security forces had to reveal that they had uncovered a group calling itself Sympathisers of al-Qaeda armed with 14 boxes of C4, the explosive used to blow up the *Cole*, and declared that they had foiled a similar attack. Another group pronounced foreign interests in Yemen to be legitimate targets, after the government failed to honour a deadline for the release of militant suspects.

Yemen's reluctance to admit sabotage is not surprising: the verdict of the French and American bomb-experts now investigating the limping *Limburg* could seal the country's fate. Mr Saleh is torn between the two pillars of his regime: the Americans anxious to pursue their foes, and the tribal leaders who give these foes refuge.

To placate the tribes, the president promises to resist American pressure to hand over captured militants, and to keep American troops off Yemeni soil, restricting their presence to warships patrolling its seas. To placate America, he has sent some 2,000 Yemeni troops, reportedly accompanied by American "advisers", to take on the tribesmen said to be providing a haven for wanted al-Qaeda suspects.

He is failing to please either side. Using arms from the 1994 civil war, tribal leaders rain down missiles on army bases. They have also fired Stinger missiles at the helicopter of the president's son, Colonel Ahmed Saleh, the commander of the Republican Guard. Last month, they shot at the president's own helicopter convoy.

In an attempt to conceal the news, the authorities have slapped a gagging order on military operations in the hinterland. Fortunately for braver journalists (some have been dumped in jail) this is no obstacle: explosions have now come to the capital. In addition to western embassies, the homes of Yemen's intelligence chiefs have been attacked.

Some voices in America's Department of Defence are beginning to suggest that America might provide

the protection for Gulf tankers that the Yemenis fail to provide. But, as the killing of a marine in Kuwait, America's closest Gulf ally, showed this week, foreign troops and the Arabian peninsula do not sit easily together.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

South African politics

Crossing the floor

Oct 10th 2002 | JOHANNESBURG
From The Economist print edition

South Africa's party politics get a bit livelier

A SMALL revolution is under way in South Africa. On October 4th the Constitutional Court ruled that local councillors can jump from one party to another without losing their seats. This week the first 27 defectors abandoned the right-wing Democratic Alliance, thus handing control of Cape Town to the African National Congress (ANC) and its ally, the New National Party. More defections are likely elsewhere, especially in Western Cape province, before a 15-day window closes on October 22nd.

Penuell Maduna, the justice minister, promised this week that the constitution would be changed to allow similar rules at provincial and national level. Since betrayal is allowed only once every two years, it will not destroy the enfeebled opposition parties, just yet. But the change helps the ANC. Those already in office can lure turncoats with promises of jobs, and the rules lay down that defectors must bring along at least 10% of their party colleagues. Since the ANC dominates the national parliament with 266 members, it risks a defection only if 26 of them jump at once. In smaller parties, just two or three MPs could desert.

At the provincial level, there could be particular danger if the Inkatha Freedom Party and its leader, Mangosuthu Buthelezi, suffered defections that lost them control of KwaZulu-Natal to the ANC. That loss could prove unbearable for Mr Buthelezi, who reluctantly joined the government as home affairs minister in 1994, as part of a peace deal after years of murderous inter-party violence.

The ANC will gain in the short term from party defections, but it has troubles of its own. Communists and trade unionists, both part of the ruling alliance, last week called a strike against privatisation. An angry Thabo Mbeki called the “ultra-left” a long-spent force, and his government set next March for the privatisation of the state telecoms company. But rebellious factions may be encouraged by the new defection laws.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Russia and Georgia

Smiles all round—till the next time

Oct 10th 2002 | MOSCOW
From The Economist print edition

EPA

Buffeted and bullied by its powerful neighbour and former ruler, Georgia looks for support from the West

Get article background

IT LOOKED to some like the prelude to a war in the Caucasus. But it ended this week as mysteriously as it had begun. The presidents of Georgia and Russia, Edward Shevardnadze and Vladimir Putin, went into a meeting on October 6th all tense and emerged all smiles; “a turning point,” said Mr Shevardnadze. For now, maybe. This was not the first flare-up between his country—once part of the Soviet Union, indeed birthplace of Stalin—and its former masters. Nor is it likely to be the last.

The trouble this time was the Pankisi Gorge in eastern Georgia, where rebels from the Russian republic of Chechnya sometimes hide out. Mr Putin had used the anniversary of the September 11th attacks to threaten a strike into Georgia, invoking the same right to self-defence as George Bush did before striking in Afghanistan. The Georgians had often accused Russia of covertly launching such strikes anyway, but the open threat rattled them.

So Mr Shevardnadze sent troops into the gorge—not the wild, inaccessible nowhere-land that it sounds like, but a broad valley two hours drive from Tbilisi—and soon declared it empty of undesirables. But after a fight with Chechen rebels in next-door Ingushetia on September 26th, Russian forces found the body and belongings of Roderick Scott, a British cameraman. His tapes, aired on Russian television, showed the rebels' trek from Pankisi across into Russia; the band was led by Ruslan Gelayev, a Chechen commander who had spent much of the previous three years in Pankisi. That gave Moscow all the ammunition it needed. “While Shevardnadze is in power in Tbilisi, the situation in Georgia will not change,” fumed Andrei Nikolayev, a former general and chairman of the Duma's defence committee.

Why now?

Why the sudden sharpening of tone? Pankisi is a problem, fair enough. In 2000, after the second Russian onslaught in Chechnya, first refugees and then rebels trickled across the mountains into Pankisi, where ethnic Chechens first settled in the 1830s. Smuggling and organised crime followed, which the feeble Georgian army and police were unable to stop. Unproven reports said that the gorge harboured al-Qaeda terrorists. Yet diplomats in Tbilisi reckon there were never more than a few hundred Chechen rebels. And locals in Pankisi say that most of these had left the gorge weeks before Mr Putin's threat.

Georgians offer deeper explanations. Some point to the new oil pipeline—work on it has just begun—that will link Baku via Georgia with southern Turkey, competing with Russia's Baku-Novorossisk pipeline. (As it will, but much to the benefit of Russian oil companies, since it will relieve pressure on the congested tanker route for Russian oil through the Bosporus.) Others think Mr Putin is a reasonable man, but led astray by hardliners like Mr Nikolayev, who detest Mr Shevardnadze—a former foreign minister of the Soviet Union—for his role in breaking that country up.

Whatever its reason, the more the pressure from Russia, the more Mr Shevardnadze looks to his western friends for support. “We probably wouldn't give nearly as much aid to Georgia if it wasn't for his friendships in Washington going back over so many years,” opines one American diplomat. Was Mr Putin's threat, coming just as Mr Bush threatened Iraq, mainly an opportunistic attempt to align Moscow

with Washington and turn Mr Shevardnadze's old friends against him?

Likewise, this week's sudden truce was notionally the result of Georgia's promise to hand over 13 captured Chechen rebels (after weeks of insisting that it would do no such thing without a proper extradition process). But it may simply mean that Russia is ready to lay off—for now.

Most Georgians, indeed, think Russia aims to provoke instability, not war. Earlier this year it offered passports to the 220,000 people of Abkhazia, a self-declared autonomous republic within Georgia that has close ties to Moscow. To the Georgians' further fury, two-thirds of the Abkhazians seemed happy to take them. But the Pankisi affair may have strengthened Mr Shevardnadze. After ten years in power, his inability to keep Georgia in one piece, boost its economy or fight corruption has pushed his approval rating at times down to single figures. Yet even critics now rally round him. “It is very important that he complete his term [in 2005]. It is a guarantee of stability,” says Nino Burjanadze, chairwoman of the parliament.

Maybe, but Georgia has a 900km (560-mile) border with Russia, which takes a fifth of its exports. And Georgians have become more pro-Russian in recent years, according to GORBI, a Tbilisi polling firm. When Mr Shevardnadze goes, will they want someone friendlier to Moscow?

That will depend partly on how Georgia fares in future confrontations. The Pankisi spat drew only faint signs of support from the West; Mr Shevardnadze may have old friends, but it is Mr Putin who carries weight. Still, helped by a $64m American “train and equip” programme that began this year, Georgia's armed forces may soon be less outgunned than they are now. Would they shoot down a Russian plane firing on Georgian territory? Gela Bezhuashvili, the deputy defence minister, grins: “As soon as we are capable of it.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Enlarging the European Union

Yes; yes, but; and don't call us

Oct 10th 2002 | BRUSSELS
From The Economist print edition

The EU is ready to complete talks with ten candidates, but is snubbing Turkey

Get article background

ALMOST a decade ago, the European Union proclaimed that “countries in Central and Eastern Europe that so desire” could join it. This week the European Commission announced that it expects ten countries—Poland, the Czech Republic, Hungary, Slovakia, Lithuania, Latvia, Slovenia, Estonia, Cyprus and Malta—to be able to conclude negotiations at an EU summit in December and to join in 2004. But Bulgaria and Romania, hoping for a promise of entry by 2007, found this labelled a mere “objective”. And Turkey, which took its first steps in 1963, and was hoping at last to get a date for the start of negotiations, got no date at all.

And now? Ireland's voters may yet reject the Nice treaty, for a second time, later this month. And some issues need to be resolved before candidates and today's members can agree on an accession treaty.

Agriculture is the toughest. Some EU countries—Germany, Britain and the Netherlands, notably—want the EU to say that all direct payments to farmers will eventually be phased out. No way, say others, notably France and Spain, that do well out of the current system. So the EU's negotiating position will probably be as proposed by the European Commission: let the newcomers start with 25% of the level of direct payments available to current members, rising to 100% by 2013; and no commitment to phase this sort of subsidy out. The candidates see this as discriminatory. They also have deep worries about the level of “production quotas” assigned to them by the EU's Soviet-style method of regulating farming. The Poles say they would face huge cuts in their dairy herd.

Then there is the EU budget. All the candidates are poor. They expect a helping hand from Brussels as soon as they join. Yet they could start off as net losers: the development programmes they hope to gain from will take time to identify and administer, while their obligation to pay in to the budget will kick in at once. This technical issue is proving horribly difficult to unravel. But most EU countries agree that any such result would be absurd, so a way round will surely be found.

The Cyprus problem is being fudged. Only the Greek-run bit of the island is currently negotiating, though it claims to speak for the whole place. The EU, however, is clinging to the fiction that it may yet be possible to achieve a settlement in Cyprus by December, and so agree to let in a united island. In reality it will agree to let in a divided one, risking the wrath of Turkey.

That wrath could be considerable. The Turks are being doubly snubbed: first on Cyprus, then in the EU's refusal even of a date for starting negotiations with Turkey itself. The EU says Turkey has still not fulfilled the “Copenhagen criteria”, which set out basic democratic norms that candidate countries must fulfil. The Turks reckon they are trying their hardest; some (and they have an election in three weeks' time) are asking why bother to go on trying.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Ireland and the Nice Treaty

If the Irish say no

Oct 10th 2002 | BRUSSELS
From The Economist print edition

Can the EU find a way round?

Reuters

Ireland's Bertie Ahern sends the message

FOR months European Commission officials have repeated the mantra that “there is no plan B”: ie, that if Ireland's voters reject the European Union's Nice treaty—for a second time—in the referendum on October 19th, there is no plan for rescuing enlargement.

Maybe not, but plenty of people in Brussels have been thinking about one. The obvious plan B would be to extract those elements of Nice truly essential to the operation of an enlarged EU, and wrap them into the new treaty admitting the new members; notably, each country's number of votes in the Council of Ministers, of members in the European parliament, and of members (one apiece) in the European Commission.

Some EU officials fear this would only lead to trouble: it would be seen in Ireland and elsewhere as a transparent ruse to get around a democratic vote. So what about Plan C? This would involve junking Nice in its entirety, and pushing all enlargement-related questions into the new constitutional debate that the EU has just launched, which is likely to culminate in 2004. But that would probably delay enlargement for at least two years, and might lead to a backlash in the candidate countries.

So what about Plan D? This would try to avoid those delays by accelerating the EU's constitutional convention and forcing it to report in the next six months. This idea is favoured by radical integrationists, hopeful that the atmosphere of crisis generated by an Irish “no” would allow them to make a much bigger leap forward. But that ignores the fact that a second rejection of Nice could only plausibly be read as a plea for slower integration, not bigger helpings of the same old recipe.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Divided Cyprus

And likely to stay divided

Oct 10th 2002 | NICOSIA
From The Economist print edition

After nine months of talks the island's rival leaders are still far apart

AP

Obstinate Denktash, obstinate Clerides

UNEXPECTEDLY, Alvaro de Soto, the long-suffering United Nations diplomat charged with trying to re-unite the Greek-Cypriot and Turkish-Cypriot halves of that divided island, has a gap in his diary. The talks he has chaired once or twice a week since January between Glafcos Clerides and Rauf Denktash, leaders of the two communities, are on hold. Barely had Mr Denktash completed another fruitless round of talks—with Kofi Annan, these ones—on Oct 5th, than the 78-year-old Turkish-Cypriot leader was whisked into hospital in New York for heart surgery.

A tough survivor, he plans to be back in the conference room in Nicosia by early November. Amenable to a deal at last? Don't count on it, say western diplomats. Mr de Soto wants both leaders to sign up, at least to a framework agreement, in time for the EU's summit in Copenhagen on December 12th. He should be so lucky.

Mr Denktash wants his self-declared “Turkish Republic of Northern Cyprus” recognised as equal to the bigger, wealthier and UN-recognised state that Mr Clerides runs in the south. For him, that's the starting-point. Only from it might he agree to hand back about 12% of the island's territory to the Greek Cypriots and accept the creation of a central government that would represent a federated Cyprus in Brussels. The two communities would continue to live separately and run their own affairs, as they have done since Turkish troops landed in 1974, after a coup by Greek-Cypriot right-wingers threatened, briefly, to unite Cyprus with Greece.

Mr Clerides, aged 83, is just as obstinate. “Creation” of a central government? There is one, that's us. Recognition of Mr Denktash's “republic”, even for an instant, he argues, would make Cyprus a confederation of two states, contrary to UN resolutions on reuniting the island as a single state. More important, he knows he could not sell confederation to Greek Cypriots.

The pause in the talks gives Mr de Soto more time to finish a chunky document detailing the practical terms of a Cyprus settlement. He plans to present it to the rival leaders after Turkey's general election on November 3rd. If he can also find a form of words defining Cyprus's constitutional status that both leaders can accept, a deal is possible. If not, in the view of western diplomats it will be up to Turkey's new prime minister to arm-twist Mr Denktash.

Turkey's next government may be less considerate of Mr Denktash than Bulent Ecevit, the current prime minister, has been; he is an old friend, and it was he who ordered in the Turkish troops in 1974. But it may take weeks to put a government together, and even if the new one feels that way—the EU's latest snub to Turkey hardly makes it likelier—getting a deal by December 12th would be a tight squeeze.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Italy's centre-left

Falling apart

Oct 10th 2002 | ROME
From The Economist print edition

The opposition parties are divided over foreign policy, and much else

Get article background

IT'S called the Olive Tree. Trouble is, it has too many branches, and they are now blowing every which way. Italy's centre-left opposition is in chaos.

The storm broke last week. The government, loyal to its alliance with America, plans to send 1,000 alpine troops to Afghanistan. What did parliament think? In Italy, governments do at least ask the legislature that sort of question before, not after, taking action. But the prime minister, Silvio Berlusconi, had no embarrassment to fear, rather the reverse. Of the Olive's two big branches, Francesco Rutelli and his Daisy group voted yes. So did some of the ex-communist Democrats of the Left. But most of these stuck with their parliamentary leader, Piero Fassino, and a qualified no. The Greens and hard-left Refounded Communists voted no, enthusiastically.

Mr Berlusconi has his problems. But the divided opposition is hardly one. Foreign policy, as in this episode, often leads it into public rows. Some of its politicians have kind words for the United States, others show more understanding for Saddam Hussein. Some of its voters back Israel, most are for the Palestinians. Some of its constituent parties are ready to see reforms to Italy's rigid labour laws, others are not. Some want public-sector television freed, once and for all, from political control. Others are merely waiting for their turn to put their men back into the key jobs.

As to a leader, the left has none—or rather, several. Mr Rutelli, a former mayor of Rome, led it in the election of May 2001; to an honourable defeat, but still defeat, and he is unlikely to get a second chance. The Left Democrats' Mr Fassino and Massimo D'Alema, their party chairman and a former prime minister, both have some standing, and views not unlike Tony Blair's, but not many voters; support for the party seems to be melting by the day.

Two imaginable but unlikely leaders are Giuliano Amato, another sometime prime minister, now a vice-chairman of the convention that is studying the way ahead for the European Union, and Enrico Letta, a youngish Daisy centrist who was industry minister in the government led by Mr D'Alema. They are competent, pro-market, and pro-American, though not supinely so. But traditional left voters won't go for them. Nor would backers of the growing anti-globalisation movement.

Voters such as these would prefer Sergio Cofferati, until recently boss of the CGIL, the largest and leftest of Italy's three trade-union confederations. He has personality, charm, bearded good looks and a solid following. But his ideas—he is against labour-law reform, notably—switch off middle-of-the-road voters.

No wonder then, that there is much talk of yet another former prime minister, Romano Prodi, now president of the European Commission. He has said he might quit that post before his term expires at the start of 2005. But Mr Prodi is no miracle-worker either. It is symbolic of Italy's centre-left today that the man who has recently given Mr Berlusconi the most trouble is not a politician, but a film director, Nanni Moretti. He galvanised the left with a couple of big rallies in Rome—and says he is not interested in leading a party.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Germany's new cabinet

Super-job for a super-minister

Oct 10th 2002 | BERLIN
From The Economist print edition

But will Wolfgang Clement be ready and able to carry it out?

EMPLOYERS, trade unions, economists, they all agree: Wolfgang Clement, now premier of North Rhine-Westphalia, Germany's most populous state, is the right man to head the new federal super-ministry combining economics and employment. His appointment shows the new Schröder government means business. All he has to do now is make things work.

That's all, is it? The economy is flagging, unemployment is rising (despite the brief stability brought last month by thousands of short-term post-flood jobs), and business is being stifled by taxes and red tape. Will Mr Clement be ready for the needful radical reforms? His own state is no shining light: its 18m people live with 9%-plus unemployment, worse than in any other western German state except Bremen. The Ruhr, its heart, and cradle of Germany's industrial revolution, has been sliding for three decades, losing over 100,000 jobs in coal and nearly 250,000 in steel. As the state's minister for economics, transport and technology in 1995-98, and premier since then, Mr Clement has helped lead it from heavy industry into high-tech, telecoms, media and services. But now the new economy too is in trouble.

Within Gerhard Schröder's Social Democratic party, Mr Clement has a reputation as a moderniser and a pragmatist on good terms with both labour and employers. But he is also an interventionist, not averse to bail-outs or to massive year-after-year subsidies for the moribund coal industry. He is respected as a political heavyweight capable of pushing through controversial ideas. He will need to be—and many wonder whether this 62-year-old former journalist really will choose, and be able, to shake up Germany's outmoded labour market and industrial structures.

Mr Clement has a reputation as a moderniser and a pragmatist on good terms with both labour and employers

His first task will be to carry through the recommendations of the Hartz commission on labour-market reform, which Mr Schröder has promised to implement in their entirety. Besides a revamp of the federal Labour Office with its 90,000 staff and *euro*54 billion ($53 billion) budget, the committee had many drastic ideas: end job security for new employees above a certain age (so that employers will hire them at all), expand the low-wage sector, ease restrictions on temporary and part-time work, set up official “temp” agencies to take on job-seekers on wages initially well below the going union rate. And more.

This has already provoked the unions. It will also cost money, at least initially: *euro*5 billion say the Social Democrats, double that say their Green coalition partners. But the government has nothing to spare: Hans Eichel, the finance minister, has warned his colleagues that he must find an extra *euro*10 billion of savings in this year's budget, perhaps even more next year. And the economy, which grew by just 0.6% last year, may prove to be doing even worse this year—0.1% growth, Deutsche Bank forecast this week, with 0.6% for 2003.

Could (or should) taxes be raised? During the recent election campaign, Mr Schröder promised there would be no increase. The coalition partners are now looking for a way round that. Before his new appointment, Mr Clement led a group of Social Democratic state premiers talking of putting legislation before the upper house, where the states hold sway, to bring back a wealth tax and increase inheritance duties (both of which go to the states). The Greens want some income-tax reforms that would raise revenue at the expense of better-off couples.

When the new government is sworn in, in about ten days' time, Mr Clement is expected to rank after Mr Schröder and his deputy, Joschka Fischer, the Green foreign minister, but ahead of Mr Eichel. Many foresee a clash, with Mr Eichel eager to limit government spending and Mr Clement, Keynesian-style, to boost it. And if France can decide—as it told its euro-zone partners this week—that it has “other

priorities” than sticking blindly to the EU's 3% deficit limit, might not Germany?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Higher realms

A saint for Opus Dei

Oct 10th 2002
From The Economist print edition

A controversial canonisation

Get article background

EPA

Saint Josemaria and friends

IT TOOK about 1m euros, an audience of 300,000 people including half-a dozen Italian government ministers, three Spanish ones, Lech Walesa and umpteen other notables, 48,000 sponsored bottles of beer and 20,000 of water, some 400 bishops, 37 choirs, 13 cardinals and one pope. And at the end of a fine Sunday in Vatican City, the Roman Catholic church had its latest new saint, the 468th of John Paul II's papacy: Josemaria Escriva de Balaguer, dead only in 1975 but founder some 70-plus years ago of Opus Dei, an order that has attracted more suspicion—not only from anti-clericals—than any but the Jesuits.

The new saint, born in northern Spain in 1902, in his earthly days was a priest of forceful personality, much self-flagellation and attractive ideas of the personal sanctity that the lay Christian could achieve in ordinary life. The trouble was, and remains, just which lay Christians? Escriva, like many another priest, needed ingenuity and luck to survive the Spanish civil war of the 1930s. He fled from the Republican north to France, returning later to an area held by Francisco Franco's victorious rebels. Though from 1946 he lived in Rome, his followers tended to be close to the Francoist cause, and several served as ministers in the *caudillo*'s government of the 1950s and 1960s.

Hence the Spanish left's suspicions of the order. Under Paul VI in the late 1960s, the Vatican shared those suspicions: Opus Dei was not (and is not) exactly in the forefront of church renewal. But John Paul II had other ideas. In 1982 the order became a “personal” bishopric: its now 84,000 members—1,800 of them priests, 70% of the rest living ordinary lives, the remainder mostly in houses of the order—owe spiritual allegiance to its head, not the local bishop.

Via beatification in 1992, it has taken the new saint only 21 years, and a couple of the necessary miracles, duly found, to reach sainthood. And a little money. Opus Dei does not overflow with news about itself or its members—another cause of criticism—but it admits it spent *euro*480,000 getting its founder there.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Charlemagne

The cross-Channel rivals

Oct 10th 2002
From The Economist print edition

In the EU at times, as at Agincourt, Britain and France are old enemies. But they share one solid common interest

SOME years ago, your columnist shared a house in Washington with a former British paratrooper who had retired thither to devote himself to the cultivation of marijuana. Some nights, after long hours testing his produce, the ex-para would wander the house muttering, “The French—they're the real enemy.”

At the time, it was easy to dismiss this as drug-induced paranoia. Seen from Brussels, it looks more like a sharp insight into international relations. Eurosceptics in London still reserve their deepest dislike for Germany; but British officials at the heart of the European Union seem often to be locked into a life-and-death struggle with the French. On a day-to-day level the two sides get on well enough. But each also harbours deep suspicions of the other. The British regard the French as devious, law-breaking nationalists with undue influence in the Eurocracy, busy advancing French national interests while pretending that it is all for the good of “Europe”. The French regard the British as perfidious American stooges who are taking over EU institutions and forcing everybody to speak English, while advancing an agenda that purports to make the EU more efficient and open, but which secretly aims to undermine the whole project.

One long-running quarrel has at last been patched up: after years of banning British beef, in defiance of EU law, France has agreed to lift the ban. But both sides' suspicions will linger. The antagonism goes back to Agincourt and beyond. But in an EU context it began with de Gaulle's veto of Britain's entry into the community in the 1960s, and really hardened during the years, 1985-95, when Jacques Delors, a Frenchman, was president of the European Commission, pushing an integrationist agenda that the British found hard to swallow. British EU officials recall this as a period when the commission was tightly run by French ones, with more than half an eye on French priorities.

De Gaulle's veto sprang from his view of Britain as a tool of the Americans. But France's doubts about its (since 1973) EU partner are mostly of more recent vintage. Recent reforms of the commission under Romano Prodi are often portrayed in the French press as advancing a British agenda. The fact that French officials have been moved from key posts that France traditionally dominated, such as secretary-general of the commission and head of the agriculture directorate, is seen (not altogether wrongly) as a deliberate effort to dilute France's grip on the commission. The darkest suspicions, however, centre on the imminent enlargement of the EU. Pour a few drinks down senior French policymakers or journalists, and you may be told that the British are promoting enlargement only in the hope that it will make the Union an unworkable shambles (*bordel*, a brothel, is the more colourful French metaphor they use), in which everybody will speak English and the whole noble enterprise will degenerate into a mere free-trade area.

Beyond the playground suspicions and historical rivalries, there are real issues at stake. In many areas Britain and France have diametrically opposed views. The British push a liberalising, market-driven agenda; the French are the great believers in “social Europe”, the effort to create a pan-European welfare state. The French regard the EU's agricultural policy as one of its foundation stones; the British regard it as a protectionist monstrosity, fit only to be destroyed. The French have always hoped to see the EU evolve into a powerful block that can stand up to the United States; the British are horrified by such an idea.

Common ground

So are the two countries doomed to battle for ever? Not on everything. Jointly, they have pushed for an EU rapid-reaction force. More significant, they have discovered a principle that both are keen to defend: national control of foreign policy. The two may differ over specific issues such as Iraq, but they share a determination not to be tied down by common EU positions decided by the minor countries of the Union or the mostly even more minor ones due to join it. Each with its permanent seat on the UN Security Council and its own nuclear weapons, France and Britain have an in-built reason to resist the "communitarisation" of foreign policy that is being pushed by the European Commission and, intermittently, by the German government.

As a European constitutional convention ponders such questions, the keenest integrationists in the convention have deep suspicions about its chairman, Valéry Giscard d'Estaing, a former president of France. Their suspicion was deepened still further when he chose Sir John Kerr to head his secretariat: a former head of Britain's Foreign Office is not the integrationists' idea of the kind of man who should be shaping debate about the future of Europe. The convergence of British and French views about that future was underlined this week, when Jack Straw, Britain's foreign secretary, backed a proposal made by President Jacques Chirac for the EU's Council of Ministers to be given a high-profile president. The lesser EU countries, like the European Commission, see this proposal as a power-grab by two of the big boys, Britain and France.

Britain and France may differ over specific issues such as Iraq, but they share a determination not to be tied down by common EU positions decided by the minor countries of the Union

Is this the start of a new *entente cordiale*, or just a temporary tactical alliance? The French will be wary of throwing in their lot with the British, whom they still regard as inherently unreliable partners who have not even joined the euro. Both sides of the political divide in France still long for a revival of the Franco-German engine that traditionally drove forward European integration. For them, a renewal of that relationship would reassert France's rightful place at the centre of the Union, and Britain's rightful place on its margins. Yet many French policymakers also doubt that the old Franco-German motor can really be restarted —particularly after the re-election of Gerhard Schröder, who gets on badly with Mr Chirac. Germany may be France's partner of choice; but *realpolitik* means that on the big constitutional questions facing the EU, France's natural ally is Britain.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Northern Ireland

Storm over Stormont

Oct 10th 2002 | BELFAST
From The Economist print edition

Alamy

The Good Friday Agreement, in which so many have invested so much, now seems on the verge of collapse. What went wrong?

POLICE raiding Sinn Fein's offices in the Stormont parliament building; Denis Donaldson, the man who runs those offices, charged with possession of documents likely to be of use to terrorists. The events of the past week in Northern Ireland have been dramatic and peculiar, but their outcome predictable: the likely collapse of the Good Friday Agreement along with the institutions of government it brought into being.

The negotiations that led to the signing of the Agreement were long and complex, but its weakness was simple: while the nationalists and republicans saw it as progress and opportunity, for the unionists it always represented loss as well as the prospect of peace. In the referendum on it, almost all nationalists supported it but almost half of unionists opposed it. David Trimble, leader of the Ulster Unionists, the larger and more moderate unionist party, and first minister of the Executive, has been under constant attack since, not just from Ian Paisley, leader of the more extreme Democratic Unionist Party, but also from dissidents within his own party.

Mr Trimble signed up only after getting a letter from Tony Blair which seemed to promise to oust Sinn Fein from the power-sharing Executive if its paramilitary wing, the IRA, did not move promptly towards decommissioning its arms. But the unionists always suspected that the Agreement was nothing more than a cunning trick for republicans to emerge with a paramilitary organisation intact, plus political kudos.

When the institutions in Stormont were set up, both republicans and unionists—even the DUP—got down to the business of government with a will. Mr Paisley has been an energetic chair of the committee overseeing policy on agriculture. Martin McGuinness, a senior republican who first made his name as an IRA commander, became an enthusiastic minister for education, much admired by his civil servants.

But the paramilitaries did not disappear, and violence, though nothing like as lethal as it had once been, persists. Unionists fume about IRA ceasefire breaches. Nationalists count loyalist attacks against Catholics and complain about the police failure to respond. But, as unionists are keen to point out, republican violence has political implications that loyalist violence does not: while the loyalist paramilitaries do not have a political wing in government, the republican thugs do, in the shape of Sinn Fein.

How it all went wrong

Date	Event
Apr 1998	Good Friday Agreement signed between Britain, Ireland and Northern Ireland's main political parties, creating devolved government and structures for peace process
Aug 1998	Real IRA, a dissident republican group, plants bomb in Omagh, killing 29
Mar 1999	Rosemary Nelson, a lawyer who had defended a high-profile republican, killed by a bomb under her car. Allegations of collusion between police and loyalists in her death still under investigation
Jul 1999	Three people in Florida charged with, and subsequently convicted of, gun-running for the IRA
Dec 1999	New Northern Ireland Executive meets for the first time
Feb 2000	David Trimble, first minister, threatens to resign because of lack of progress on decommissioning IRA weapons. British government suspends Assembly
May 2000	IRA agrees to plan for inspection of weapons dumps. Assembly restored
Jul 2001	Trimble resigns because of lack of progress on decommissioning
Aug 2001	Three suspected IRA members arrested in Colombia, accused of training guerrillas in bomb-making
Nov 2001	Trimble re-elected
Mar 2002	Still-mysterious burglary of Special Branch offices in Castlereagh police station, Belfast
Sep 2002	Trimble commits himself to pulling out of Executive in January unless IRA disarms and disbands
Oct 2002	Police raid Sinn Fein homes and offices, and charge head of administration at Stormont with possession of documents which may be of use to terrorists

Source: *The Economist*

While the sectarian violence at home continued, a couple of embarrassing incidents abroad made it increasingly hard to convince unionists that republicans were moving away from violence. Three people were charged with, and subsequently convicted of, gun-running in Florida; three republicans, suspected of being IRA members, were arrested in Colombia and charged with training guerrillas in bomb-making techniques.

All of this would have mattered less had unionists been convinced that the IRA really was decommissioning its weapons. But moves on arms came only when unionists threatened to pull out of the political process. In October 2001, General John de Chastelain, the Canadian head of an international commission set up to monitor decommissioning, said he had witnessed a significant disposal of arms. But there was no film of this event, nor any details of its whereabouts, and unionists were unimpressed.

How to get the IRA to decommission? For Mr Blair and Mr Trimble, who have most to lose in the short term from the collapse of the peace process, there is a baffling problem at the core of the Agreement. Its primary purpose was to bring the republicans within the democratic process, in order to wean them off violence. Yet the only sanction available to force them to stick to their part of the deal is to expel them from the democratic process—thus defeating the Agreement's purpose.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

British manufacturing

Blame the bosses

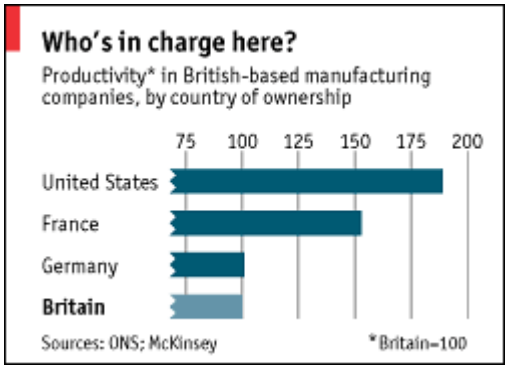
Oct 10th 2002
From The Economist print edition

Foreign-owned manufacturers in Britain do better than the locals

WHY is Britain's manufacturing industry such a mess? The usual answer is a litany of whinges: short-sighted financiers, poorly skilled workers, the wrong exchange rate, too little state support, or low-wage competition from abroad. But a new study by McKinsey, a consultancy, argues that the real reason is bad bosses.

Strikingly, British-based companies with foreign, especially American, owners manage far higher productivity than those with local bosses. The average foreign-owned company does fully 60% better; American ones by nearly 90% (see chart).

Foreign investors may tend to be a bit more dynamic, and measuring productivity is admittedly tricky. But the study chimes with known data about the large and increasing productivity gap between Britain and its competitors. Compared with the United States, for example, the shortfall in Britain's total factor productivity (which includes all inputs of both labour and capital) has risen from 23% to 43% since 1999. Defenders of British industry argue that America gains from its huge home market. But if the Americans do so much better even when operating in Britain, that argument disappears.



Low productivity creates a vicious circle. John Dowdy, the report's author, notes that most British manufacturing companies earn less than their cost of capital. Cash-strapped managers skimp on investment and training, treat their staff badly—and are even less profitable as a result. British industrial companies have underperformed their American counterparts startlingly badly in the past decade, destroying £80 billion ($124 billion) in value.

There are three main ways in which British management habits differ from international best practice. The first is **lean manufacturing**,a jargon phrase meaning economy in the use of time and materials. According to a report by the Engineering Employers Federation (EEF), fewer than 40% of British manufacturers have paid any attention to this. Others like the sound of the idea, but in practice typically make only “occasional and sporadic improvements” the report says.

The second is poor **performance management**. British managers mishandle goals and incentives. Financial and operating results are hard to understand. That makes it hard to plan improvements.

Thirdly, British-owned companies are terrible at **managing talent**. They fail to spot potential high-fliers. Understandably, that makes it hard to attract them. Britain's top engineering graduates prefer to work for foreign-owned companies.

The three are closely connected. Lean management requires good monitoring, which in turn makes it easy to reward good workers and deal with bad ones. There is also a close connection with company profitability. Comparing 100 British, German, French and American companies, the study showed that a half percentage-point increase in management ability (as scored by McKinsey's ratings system) brings a hefty 2.6% increase in return on capital employed.

Some of this chimes with British companies' own diagnosis. A report last year by the EEF also highlighted the three areas named by McKinsey, as well as better use of information technology and working more closely with universities and other outsiders on innovation and research.

The big difference is that the new study suggests that most of the complaints about government policy are secondary. There is certainly room for improvement when it comes to vocational training, but Britain is actually rather good at teaching manufacturing—notably at Warwick University.

The study says the best thing the government can do for manufacturing is to create a more competitive environment, rather than cosseting industry with tax breaks, incentives and other special treatment. If foreign-owned manufacturers can thrive despite all the annoyances of life in Britain, why can't the locals?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Taxis

Free riders

Oct 10th 2002
From The Economist print edition

New technology should help undermine London's taxi cartel

OFFICIALDOM has got it in for London's minicabs. An onslaught this summer by the licensing authorities, the police and assorted bureaucrats has already led to the arrest of 148 minicab drivers. Some serious offences were involved, including benefit fraud, and possessing firearms and a knock-out drug associated with date rape, but half of them were arrested for nothing worse than the heinous crime of "touting"—driving around London looking for customers.

The capital's black cabs have a monopoly on seeking business in the streets, as well as statutorily-set fares, which are now the second-highest in the world (see chart). In an effort to make the cheaper alternative safer, the authorities plan to license minicabs, and around 40,000 candidates have already registered. The next stage, vetting for criminal records, will take, outrageously, two more years, thanks to the legendarily incompetent office responsible. But nobody is suggesting the logical next step—letting them tout for business on the streets—because London's 24,600 pampered taxi-drivers are such a powerful lobby.

Technology is making their monopoly more ludicrous still. The "knowledge"—the two-year slog of learning routes around London off by heart—is the main justification for the taxi-drivers' privileges. But memorising maps looks an increasingly odd use of the human brain. Computers can already do much of the job more quickly and better (and a lot cheaper). Existing technology—based on satellite positioning and a CD-ROM—already works quite well. Although human intelligence is still best at dealing with congestion, roadworks and so on, the next generation of navigation software aims to do that too.

Once licensed minicabs can afford this kit, the black taxis' cushy status will look indefensible. If a minicab driver can get you from A to B as quickly as a black cab, and more cheaply, why ban him from stopping in the street?

The taxi drivers like to think that their iconic status will preserve their privileges. Only their purpose-built vehicles can turn on a sixpence, carry up to five passengers, and easily manage wheel-chairs, they argue. But that should be a matter of consumer choice, as it is in other European cities such as Berlin, where London-type taxis have a niche business, while most customers seem quite happy with a less elaborate ride.

Putting minicabs on an equal footing with black taxis will certainly benefit consumers. It will also have a strong peripheral benefit. Whereas the black taxi business is legendarily lucrative, minicab drivers tend to be poor foreigners, often with dependants abroad. Help the third world—take a minicab.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Adventure holidays

Fancy a bad time?

Oct 10th 2002
From The Economist print edition

Hardship holidays are booming

UK Survival School

Bathroom not en suite

EVERY year, thousands of British vacationers hand over good money only to be left wet, cold, hungry and sore. Some have been ripped off by dodgy package-tour operators selling holidays in concrete hell-holes on the Mediterranean. But for a select minority, being drenched, frozen, starved and bumped is the point of the whole thing.

Such adventure holidays come in lots of different shapes and sizes. The domestic market runs from school trips to slightly riskier “adrenalin sports”, such as white-water rafting and cliff-jumping, and full-blast “survival schools”, where pasty-faced desk-jockeys learn how to skin rabbits and live off the land, under the supervision of a grizzled instructor with a military background. Thrill-seekers whose appetite for punishment outstrips the options available at home risk their necks in more far-flung places, such as Peru and the Australian outback.

The business is booming. Stephen Howe of Outward Bound, a long-established firm catering mostly for school groups, says that between 1995 and 2001 the number of young adventurers coming to their camps shinned up from 8,000 to 26,000. Enrolments on its “professional-development” courses have risen fourfold. The problem-solving and teamwork activities, Mr Howe says, appeal to bosses keen to find new ways to raise morale among their worker bees and drones.

Simon Tobin, the managing director of Explore Worldwide, Britain's biggest operator of adventure holidays abroad, says the market has grown by 10-15% a year for the past five years or so. That compares with 4-5% for the traditional sun, sea and sand package holiday. In 2001, his company arranged trips for 30,000 clients, up from around 20,000 in 1999. Travelling in small groups with a local guide, punters can follow in the footsteps of Lawrence of Arabia, or try life as a troglodyte in Matmata, an underground village in Tunisia.

Asked what accounts for the burgeoning popularity of adventure holidays, operators will often allude to “the Ray Mears effect”. Mr Mears is the presenter of a string of hugely popular television programmes, and the author of several bestselling books on bush survival. Mr Mears's laid-back style and intimate knowledge of outdoorsy arcana appeal widely, especially, it seems to women—who are signing up for adventure holidays in increasing numbers.

Mick Tyler, a former commando who served in Kuwait, the Arctic and among the headhunters of Borneo, and who now runs the Breakaway Survival School in Wales, says the number of visitors to his outfit has doubled over the past three years. “People are fed up with ordinary holidays,” Mr Tyler reckons. “Most of them have no need to think for themselves in everyday life. They come out here and are surprised to find how unaware of the world around them they have become. They want to learn basic skills, like how to use a map and compass or build a shelter.”

Handy stuff, no doubt, and maybe even quite useful on a more traditional holiday—say when the tour operator's minibus breaks down somewhere between the airport and a miserable two-star hotel in Mallorca.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Urban regeneration

A vision among the pits

Oct 10th 2002 | BARNSLEY
From The Economist print edition

One town's ambitious adventure into municipal capitalism

Get article background

WHEN men earned a living hewing out coal deep underground, Barnsley was a prosperous place, if not very pretty. Now coal has gone and the town, like the rest of South Yorkshire, has headed downhill. But Yorkshire Forward, the regional development agency, thinks it can change all that. So confident is it, indeed, that it has spent about £32m on buying a large chunk of the city centre.

The deal is a highly unusual approach to urban regeneration. Normally, a local council does a deal with a private developer who makes a profit if the redevelopment works, but also takes the risk that the project will run up a loss. Although public agencies do buy property and land to regenerate them, it is usually derelict. The Metropolitan shopping centre in Barnsley, however, is a going concern.

Barnsley council wants it demolished and rebuilt. It contains most of the town-centre shopping—about 50 shops, a large store and a busy market. It is also an all-too typical 1970s concrete monstrosity. The leasehold owners (the council owns the freehold), the Norwich Union pension fund, wanted to sell anyway. But there were few takers because, although there is a secure income from the tenants, there is, in Barnsley, little chance that property prices will rise.

Yorkshire Forward sees it differently. It has drawn together a team of urban designers to find new ways of bringing vitality back to six Yorkshire towns, one being Barnsley. It needs it. Employment creation in the borough is about half the regional rate, new business creation is about two-thirds lower and average incomes, at £17,500, are well below the British average income of £23,600.

The agency is more interested in boosting these figures than in raising the value of the property. Heather Hancock, the official responsible, says the risk is low because the agency will collect the rent (which will be used for redevelopment) and it will sell the property as soon as a private firm has signed up to redevelop it.

That convinced the Treasury to authorise the purchase, but it has still raised a lot of eyebrows. “I can't see what expertise Yorkshire Forward has that private developers don't,” says a Leeds property professional. Developers still need to be persuaded that Barnsley council's vision for the town is feasible. This looks a tall order, especially since Will Alsop, the architect responsible for the design, likened the planned outcome to the view of a walled Tuscan hill town. Barnsley's centre does crown a hill, and the Art Deco town hall clock tower might be vaguely related to a *campanile*, but there the resemblance to anything Italian ends.

“Everybody has had a lot of fun with that,” says Steve Houghton, the council leader. With coal gone, he says, Barnsley has to find a different purpose—as a market town, which it has been since the 13th century. The present market of more than 300 stalls, crammed into a couple of claustrophobic floors and cluttered around the shopping centre, does draw people from as far away as Manchester. But there is neither the space nor the surroundings to expand it.

Mr Houghton reckons that rebuilding will allow the market to rival the vast Meadowhall shopping centre at Sheffield, which has drained a lot of customers from Barnsley. It may also make a start to fulfilling Mr Alsop's idea of a “wall” of buildings girdling the town centre.

Realising such grand visions, Mr Houghton admits, will still need a lot of subsidy to draw in private investment. Barnsley, he says, needs to find a new role in the 21st century. But that, presumably, is just

what the 1970s designers of the modernist Metropolitan shopping centre thought they were doing.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Health reform

Flimsy foundations

Oct 10th 2002
From The Economist print edition

The prime minister lost Labour's big row about how to reform the NHS

TONY BLAIR is a master at combining radical rhetoric with cautious deeds. At last week's Labour Party conference in Blackpool, he vowed to be bold. This week, he gave way to Gordon Brown, the chancellor of the exchequer, over a radical change he had been pushing for. The argument was over the future status of “foundation hospitals”.

Foundation hospitals, due to start next year, will be a group of top-ranking NHS hospitals which have been granted unusual freedom to run their affairs. The question dividing ministers has been how great that freedom should be. The original proposal, advanced by Alan Milburn, the health secretary—and backed by the prime minister—was that foundation hospitals should be able to borrow on their own account from private capital markets. But Mr Brown opposed this, arguing that it amounted to irresponsible public finance, since the Treasury would, in effect, be underwriting the borrowing.

After erupting at Blackpool, the row was resolved in a statement from Mr Blair's office on October 9th. On the face of it, it was Mr Milburn who had cause to celebrate. Foundation hospitals will be able to borrow from private lenders “at their own discretion, not that of the government”. But then came the first sting in the tail: this borrowing freedom will be subject to a prudential limit, assessed by an independent regulator, probably the new Commission for Healthcare Audit and Inspection. And there was a second, even more crucial proviso: any borrowing from private lenders will be counted as public spending. So if foundation hospitals raise private funds, this borrowing will be offset by reductions in the money that the government has already allocated to the NHS. “You have to interpret this as a win for the chancellor,” says Kieran Walshe, research director at Manchester University's Centre for Healthcare Management.

Even so, the statement clears the way for the advent of a new kind of hospital within the NHS. Next April, 10-12 hospitals among those already achieving the three-star score on the hospital rating system look set to achieve foundation status. They will have to meet government targets for the NHS, but they will enjoy greater autonomy. Foundation hospitals are the famous Blairite “third way” incarnate: “a new alternative to either monolithic health-care provision on the one hand and shareholder-led for profit providers on the other”, according to the statement from Number 10.

So will they improve the health service? A bit, probably. They will help primarily by releasing managers and clinicians from the palsied grip of Whitehall. Under the current tight controls within the NHS, “a lot of chief executives of NHS trusts are so busy managing upwards, they don't have enough time to manage downwards”, says Jennifer Dixon of the King's Fund, a health-care policy think-tank. Foundation-hospital status will in principle offer a way out of this bureaucratic nightmare. It will allow managers and clinicians of the new hospitals to get on with what really matters on the ground. And it will encourage other hospitals to improve their act so they too can move to foundation status.

Even this scenario of modest change and modest improvement is subject to doubt. The battle-weary veterans of the National Health Service are used to administrative reshuffles. There have been 18 such organisational changes in the past twenty years, says Mr Walshe. This has bred what he calls “a shantytown culture in the NHS: every time a reorganisation occurs, people know that the new structures aren't going to last more than two or three years”. This in turn saps the enthusiasm and commitment that is needed to make the reforms work.

A more important reason why foundation hospitals are unlikely to transform the NHS is that they do nothing to empower patients. For that, you need to change the way health care is purchased rather than the way it is provided. “The crux of the problem is that as long as you have only one insurer—the NHS—there are only weak incentives for those within it commissioning health care to be responsive to patients'

needs and to purchase it effectively," says Edward Bramley-Harker, a health-care specialist with NERA, an economic consultancy. Despite all the fuss about them, foundation hospitals sound more radical than they really are.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Congestion

Jam, Darling?

Oct 10th 2002
From The Economist print edition

It's not just London: the rest of Britain's coming to a standstill too

THE government's ten-year transport plan aims to reduce congestion on Britain's roads by 6% by 2010. In this, as in so much else, it is fantasy. Transport department officials accept that unless there is a recession, congestion is certain to go on increasing. That's why some senior advisers to Alastair Darling, the transport minister, are telling him that he is going to have to introduce motorway tolls.

Whether Mr Darling will listen depends on the outcome of the ambitious £5-a-day charging scheme that will start in central London next February. The capital is now close to gridlock for much of the day. Charging may relieve London's jams, or it may make the chaos worse.

But it isn't just London that is suffering. Trafficmaster, a company which monitors traffic on Britain's major roads with electronic sensors and sells information about jams, is to publish figures shortly claiming that congestion has increased over the past five years by up to 247% (see map). The amount of working time lost due to congestion is reckoned to have increased by 50% since 1998.

The transport secretary faces conflicting pressures. He is being attacked by environmental pressure groups, such as Transport 2000, for planning the biggest road-building programme for a decade. At the same time, the motoring lobby is increasingly critical of the government's failure to tackle growing delays on the inter-urban road network.

One of the lessons coming out of a series of transport studies the government has commissioned, looking at regional travel patterns, is that that no conceivable level of construction would be able to satisfy it. Denvil Coombe, an expert adviser on the studies, compares widening the M25, the orbital motorway encircling London, to digging a ditch in a bog. He points out that within a year of widening the road, traffic had increased by 18%.

So it is not surprising that the need for road tolls, whatever level of new road construction is eventually agreed, is a common theme that has emerged from the studies. Mr Darling says that he is “more open to pricing” than his predecessors but argues that the technology to permit nationwide satellite-based charging is a decade away. He accepts, however, that there will have to be restraint on motorists' freedom to drive. “I believe there is a limit to how much concrete you can pour over the country,” he says.

The government's public position is that the use of motorway tolls has been ruled out until at least 2011. But Mr Darling's advisers are telling him that he'll have to go for it sooner than that. David Begg, director of the government-funded Commission for Integrated Transport, says that it is impossible to make a sensible judgment on the future size of the road network without a decision in principle on pricing: “It is a bit like telling the head of the Strategic Rail Authority that all rail fares are free and expect him to make plans to meet the demand.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Bagehot

Tonier than thou

Oct 10th 2002
From The Economist print edition

The Tories have discovered a new weapon in their fight against Labour: Tony Blair

LET us give some praise where it is due. The prospect of the “25 new policy initiatives” that were to be “rolled out” by “Iain's team” at the party conference in Bournemouth was not one to turbo-charge the pulse. Such is the decline in the fortunes of the Conservative Party that its policy pronouncements are now viewed as being like those of the Liberal Democrats—quite interesting to those who are making them and to a small band of political fantasists, but of little moment to normal people.

This, however, is unfair. Even policies that have virtually no chance of ever being implemented can make a difference politically. If they are coherent and attractive, they can provide the basis for a galvanising renewal of intellectual self-confidence. Most of all, they can communicate, however dimly, a sense of direction and purpose to the wider electorate. In short, a party without policies is a party without a strategy. And a strategy is now something that the Tories, for the first time in a very long while, appear to have. Whether or not it is a winning one is another matter. It is, in nutshell, to be more Blair than Blair.

Most Tories date the beginning of their long fall to Britain's ejection from the European exchange-rate mechanism a decade ago. Others believe the party has been cursed ever since the regicide of Margaret Thatcher in 1990. But a more convincing explanation is that the Tories have never had an answer to Tony Blair. Since he took over the Labour leadership in 1994, the Tories have only once, briefly, during the fuel-tax protests of September 2000, been ahead in the opinion polls. More than anything else, the failure to understand the Blair phenomenon has condemned the Conservatives to political irrelevance.

But now, Iain Duncan Smith and “his team” believe they have found a better way: rather than fight Mr Blair, enlist him. Mr Blair proclaims every other day that he wants his government to be judged on its success in revitalising the public services. And in doing so, he castigates both himself and his party for having been insufficiently bold during Labour's first term. In his speech to the Labour conference last week—“at our best when at our boldest”—Mr Blair declared that the battle for public-service reform was between optimists, like himself, and pessimists (a malign but heterodox group that seems to include the Treasury, trade-union leaders, much of the civil service, a good few cabinet colleagues and, of course, the Conservative Party).

The prime minister even admits that previously he had not properly grasped the importance of changing structures. Establishing standards at the centre, shoving in more money and minutely monitoring the “outputs” of every nurse and teacher, he now realises, won't on their own get the job done. What's needed for better schools and for hospitals that serve their communities, he now proclaims, is a multiplicity of providers, close partnership with the private sector, the maximum amount of local autonomy and a range of choice for economically empowered consumers who expect nothing less. Although couched in the language of social democracy, Mr Blair is now saying the kind of things that Mrs Thatcher in her heyday would only have dreamt of.

Mr Blair's talent for stealing his opponents' clothes has, up to now, made the job of opposing him peculiarly difficult. But now the Tories see an opportunity. As one shadow cabinet member put it to Bagehot: “Tony is helping to make popular things we believe in, but that most of his party, and above all Gordon Brown, are very uncomfortable with. Partly because it's him that's saying it, these ideas are no longer inevitably seen as code for cuts in tax and spending, but as the only way to change things for the better. It's a new consensus, but it's a consensus that plays to our strengths rather than Labour's.” In other words, if none other than Mr Blair says that the old, centrally-planned statist model can't deliver, the Tories are liberated to follow their instincts and brush the dust off policies long ago deemed too radical.

Tony's new best friends

The picture of Mr Blair the Tories would like to conjure up is that of a would-be reformer doomed to failure by unreconstructed colleagues, such as the increasingly demonised Mr Brown. As the shadow chancellor, Michael Howard, said in an effective speech this week: “The rhetoric may be bold, but the reality is Brown.” The health spokesman, Liam Fox, was even more explicit when talking about the foundation hospitals that Mr Blair and the health secretary, Alan Milburn, see as the anchor of their NHS reforms: “Let me be frank. The concept of foundation hospitals goes clearly in a direction with which a future Conservative government would be comfortable. It is a concept we would want to dramatically expand. Indeed, Alan Milburn is breaking ground for us in a way that will make further reforms easier—which is why it is so important that Gordon Brown's objections are overridden.”

On October 9th, no sooner had the government announced a resolution of the argument between Mr Milburn and Mr Brown over whether the new hospitals should or should not be allowed to borrow without Treasury constraint (Mr Brown won on points), than Dr Fox popped up again to say how much he hoped this wouldn't undermine what Mr Blair and Mr Milburn were trying to do. After making a speech that was pure “tough on crime, tough on the causes of crime”, Oliver Letwin, the shadow home secretary, cheerfully admitted to sounding very like Mr Blair. It was just a pity, he said, that Labour's centralising tendencies sometimes led it astray.

Can this co-option of Mr Blair for the Conservative cause possibly work? It's both risky—people may well conclude that whatever difficulties the prime minister faces, he's a good deal more likely to succeed than Mr Duncan Smith—and much too early to say. But it is the most intelligent thing the Tories have tried to do for quite some time.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Prometheus unbound

Oct 10th 2002
From The Economist print edition

Impact

Greece has become much better at harnessing its people's flair and energy. Now it must prove its staying power, says Bruce Clark

STAND on the penthouse roof of a warehouse in downtown Athens, recently transformed into a contemporary art gallery, and your senses will be assaulted by the feverish energy and wild contradictions of modern Greece at the start of its third century of existence. Among the nearby buildings on Sophocleous Street are some handsome neo-classical mansions which now house Greece's new class of investment bankers, stock analysts and bond traders. Also within view are edifices of similar style and vintage that are quietly decaying, their wooden shutters flapping in the breeze. Such buildings are often owned by quarrelsome extended families who find it cheaper to let their properties deteriorate than to comply with a government preservation order.

The horizon is still dominated by the Parthenon, newly endowed with splendid night lights and soon to be linked with the other antiquities of Athens in a four-kilometre-long archaeological park, as part of the city's preparations to display its old and new charms during the 2004 Olympics. But in the foreground there is a maze of narrow streets where exquisite Byzantine churches jostle for space with hundreds of tiny family businesses: spice merchants, icon-painting workshops and purveyors of mournful music brought by Greek refugees from Turkey. The pungent scent of the meat market, a favourite spot with nocturnal revellers, wafts upwards.

Despite the appearance of chaos, the quality of life in Athens has improved with the completion of a new metro line and the opening of a shiny new airport whose capacity vastly exceeds that of Hellinikon, the old airport that strained pilots' nerves on windy days. Within a few years a new highway around greater Athens will make it easier to travel north from the airport towards Salonika, or west towards Patras, without getting entangled in the capital. Further afield, the Peloponnese will be linked to central Greece by a bridge, and a new road from the Adriatic to the Turkish border will speed up east-west travel.

Which of the many trends at work in Greece, at once the most conservative and the most adaptable of European nations, will prove the strongest? The breezy exuberance of the new yuppie class, which despite the recent setback inflicted by sagging stockmarkets looks forward to the good times in the euro zone? Or the still baleful influence of a self-serving bureaucracy, whose clumsy regulations often force Greek citizens to behave deviously and irrationally? Will nationalist passions once again bedevil Greek relations with its neighbours, or will Greece fulfil its potential as the economic engine of south-eastern Europe?

For a country that stagnated throughout the 1980s and spent the 1990s fretting about the effects of war on its northern borders, Greece is enjoying much greater economic success than seemed likely even five years ago. This is both a cause and a reflection of its enhanced status in the European Union. Having shaken off its reputation as a laggard in the EU, it is now settling into a new role as a locomotive for the Balkans: the only country in south-eastern Europe that belongs to most of the world's smarter clubs, and an advocate for the region in the wider world.

All Greece's internal strains—between left and right, town and country, native and immigrant—have been eased by rapid economic growth, recently running at about 4% a year. In the words of Yannis Stournaras, chairman of the Commercial Bank of Greece and an architect of the country's euro-zone entry, “There is no comparison between Greece today and 15 years ago,” when profit was a dirty word, interest rates were regulated, industrialists felt beleaguered and labour was militant.

AP

Simitis is doing his bit

This survey will argue that Greece has made impressive progress towards putting its economy on the right track and improving its international image. But these achievements are fragile, and they owe something to good luck, as well as to factors that no politician ever planned, such as an influx of migrant labour over the past decade which has pushed Greece's population up by about 7% to 10.9m. Now that relative calm has descended on the former war zones of the Balkans, and relations with Turkey have eased, it is important for the moderate socialist government of Costas Simitis to consolidate Greece's achievements.

The country's internal stability has been helped by the apparent break-up of November 17, a group of ultra-radical terrorists who could claim, until this summer, to be Europe's most successful urban guerrillas. Over a period of 27 years, they had killed 23 people; among their targets were soldiers, intelligence officers and diplomats from America, Britain and Turkey, as well as prominent Greeks.

No more bazookas

But in early September, a militant leftist called Dimitris Koufodinas, often described as Greece's most wanted man, mysteriously appeared at an Athens police station and announced that November 17 was “finished”. Over the previous ten weeks the authorities had hauled in 15 other suspects. A spate of revelations about pistols and bazookas stashed away in Athens apartments had turned the nightly television news into a keenly followed melodrama.

For Mr Simitis, whose socialist party, Pasok, is trailing its conservative rival, New Democracy, in the opinion polls and will almost certainly lose ground in the municipal elections due on October 13th, the arrests were a boost to his credibility at home and abroad. And for Greece's western partners, the smashing of the terrorist group was not only welcome in itself, but also a good sign of a changing political culture. After the 1967-74 dictatorship of pro-American military officers, sections of Greece's political left retained a sneaking sympathy for political violence; but now the great majority of the population see November 17 as a group of common criminals. “Democracy has crushed terrorism and instilled a sense of security into Greek society,” Mr Simitis declared in his annual address on the state of the nation in Salonika last month.

When voters go to the polls this Sunday to elect mayors and local councillors, they will pass their verdict on the financial and political stability for which Mr Simitis, with some justice, has claimed credit, and balance this against the rise in prices, the shortage of decent jobs and the losses many people suffered after risking their savings on the stock exchange. They will consider the fact that Mr Simitis himself is regarded—even by his opponents—as a paragon of honesty; and they will balance this against the persistence of corruption in high and low places all over Greece.

Local elections aside, the next general election may be as far away as 2004. Whoever forms the next government will be leading a country better placed than ever before to cope with the challenges of an integrated Europe and a potentially turbulent region.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

A great lurch forward

Oct 10th 2002
From The Economist print edition

Squeezing into the euro has done wonders for the economy

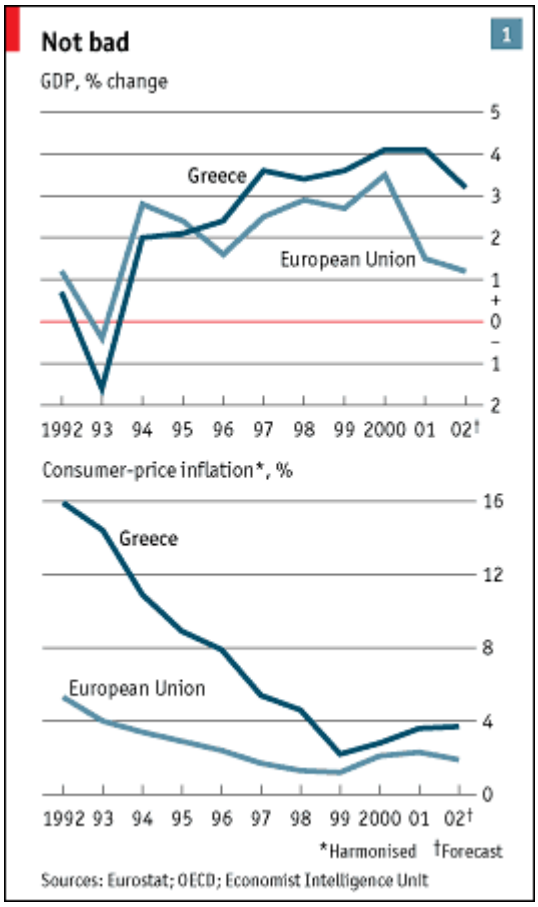
ALL of a sudden, the naughtiest pupil in the class is getting top marks. It wasn't that long ago, in 1990, when Jacques Delors, the then president of the European Commission, scolded Greece for mismanaging its economy and questioned its future in Europe. But now that economy is growing by more than twice the EU average, at a forecast 3.8% in 2002.

This partly reflects a virtuous circle created by Greece qualifying to join the euro zone; interest rates have tumbled, and there is no longer any risk of devaluation or a sudden change in economic policy, which used to make business planning next to impossible. Cheaper credit has tempted more people to take out loans for houses or simply for buying things. Consumer spending this year is running at nearly 10% above last year's levels. Personal debt is still low by European standards, so no one is worrying—yet.

Less encouragingly, inflation is also well above the European average, at 3.5% in the year to end-August, though far below the double-digit figures of a decade ago. There is plenty of anecdotal evidence that the cost of small items has risen even faster since the beginning of this year because of rounding up of euro prices. In September, Greece's main consumer organisation proclaimed a shopping boycott to shame retailers who had used the euro to introduce sneaky price rises.

Unemployment has also remained stubbornly high, at 9.6% for the population as a whole and over 20% for those under 24. On the face of it, the combination of rapid immigration and a high jobless rate should lead to social tensions. But many newcomers to Greece do the kind of work at which locals turn up their noses, such as farm labouring or domestic service, so there is little competition for jobs between natives and migrants. A household in the provinces may have an unemployed 25-year-old son at home who is looking for a nice job in the public sector, and at the same time employ an Albanian or Bulgarian who does the hard physical labour on the family farm.

One reason for the high jobless rate may be the collapse of public-sector patronage as a means of gaining favour with voters. With the utilities under pressure to balance their books, and ministries subjected to more fiscal discipline, politicians have less chance to dole out jobs to their friends. The earlier experience of Spain suggests that after a time of high growth and high unemployment, as some sectors modernise and others decline, the jobless rate will eventually fall; but until that happens, job-seekers with the wrong qualifications may have a tough time.



Twin pillars

The trouble is that the main engines of Greece's rapid growth are temporary. One is the EU structural aid that continues to cascade into the country, enriching the politically influential construction industry. This

source of cash will tail off significantly after 2006, when the current funding programme runs out and the Union will have new members to worry about. The other, related, one is the vast amount of private and public money that is being spent on preparing Greece for the Olympic Games in just under two years' time.

Under the so-called Third Community Support Framework, a piece of Euro-jargon that trips easily off the tongue of many a Greek taverna-owner or village mayor these days, no less than *euro*27 billion, from a mixture of EU, Greek government and private sources, will be spent between now and 2006 on projects ranging from air-traffic control to motorways.

Although the management of these European funds has become more efficient since Greece's early days as a member of the European Community, there have been a number of embarrassing spats between the government in Athens and the European Commission. In one incident, funding that was supposed to assist the creation of a land registry had to be paid back because it was not properly used. The registry—a difficult project in a country where every stony field is the subject of a family argument or a tussle with the state—is at last being established, albeit more slowly than the bureaucrats in Brussels would like.

Until recently, Greek governments had a poor record for carrying out public works, which were often discussed for decades on end until the money mysteriously vanished. But in part because the Olympic Games are concentrating minds, it seems likely that the current building programme will have concrete results.

The old behemoths of the Greek public sector, long bedevilled by overmanning, political interference and poor administration, are getting a bit leaner and meaner, often through an injection of private capital. The state telecoms operator, OTE, used to be plagued by strikes and provided notoriously poor services. But at least until recently, OTE and its mobile-telephony offshoot, CosmOTE, have been among the best-performing telecom stocks on European bourses. The group has expanded its empire across the ex-communist states of the region, although with mixed financial results, and created opportunities for Intracom, the Greek electronics and digital-equipment group which is OTE's main supplier. Only a third of OTE remains in state hands, and some of its bolshiest union leaders have turned into sleek corporate executives.

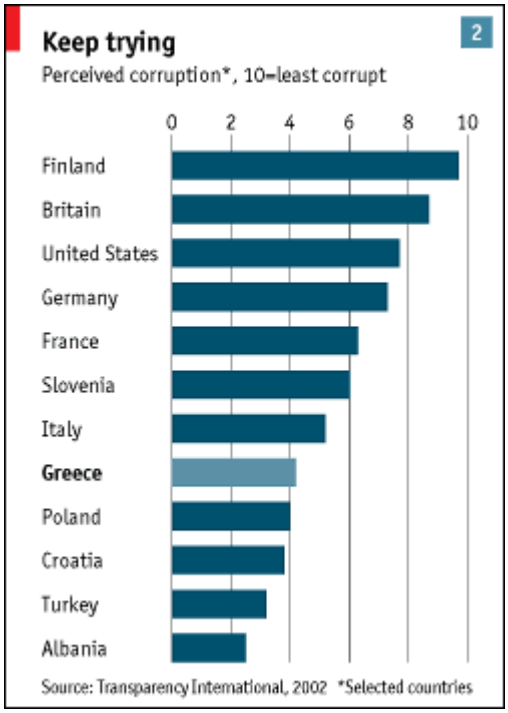
But labour relations in Greece are still far from perfect. Last summer, strains in the socialist cabinet began to show as the interior ministry offered the civil servants' union a wage deal that was promptly over-ruled by the economy ministry. A strike by seamen, which could have disrupted the tourist season, was averted by a civil mobilisation order. Trade unionists were furious, but did not stage any big protests.

The best parts of Greek industry are of world class; the trouble is that they account for only a smallish sliver of national income. There are now Greek companies that control cement factories in Florida, bakeries in Russia and mines in China. The opening of passenger shipping to European competition will put some Greek owners on the spot, but the best of them have already looked ahead and are now ferrying travellers across the North Sea.

At the other extreme, the back streets of Athens and Salonika are home to thousands of small businesses that will be hard pressed to survive the full brunt of European competition. Some of them, indeed, live on the corruption and chaos of Greece's bureaucracy, and their disappearance would be a positive gain. The financial police say there are hundreds of businesses whose sole activity is to practise or abet some form of tax fraud. Some do nothing but issue and sell false invoices for imaginary services, which companies can use to keep down their paper profits; others make fraudulent demands for the reimbursement of value added tax.

Despite the continuing problems of bureaucracy and a dysfunctional legal system, “This is, comparatively speaking, a great time for Greece,” says Dimitri Papalexopoulos, managing director of the Titan cement company. Firms like Titan, whose manufacturing empire stretches from the eastern United States to Egypt, still face huge hurdles as they struggle to satisfy inspectors and obtain quarrying permits, but at least they can count on a more business-friendly political climate and stable interest and

exchange rates.



Selling dreams

That stability also benefits tourism, which accounts for 15% of GDP. Unhelpfully, the industry is concentrated in certain regions, such as the islands of Rhodes, Corfu, Mykonos and Crete and the northern Halkidiki region. The economy in large parts of the Peloponnese, Epirus and Western Macedonia is still stagnating, even though these regions have huge potential to attract visitors who prefer scenery and wildlife to pools and discotheques.

Greek hoteliers can point to a long-term rise in the number and spending power of foreign visitors which might continue for a few more years. However, the management of the country's priceless tourist assets has been haphazard. There is a small number of luxury hotels, of which only a few have real character; at the other end of the scale, every connoisseur of Greece knows remote hideaways where visitors can live simply and blissfully. In-between there are thousands of dullish establishments whose owners seem to care more about catering to the mass market than about aesthetics or cuisine. Now that the euro has made comparisons easier, north Europeans will become more picky as they assess the value for money offered by Greece's traditional resorts. But if Greek hoteliers can diversify away from the standard beach offering into eco-tourism, bird-watching, hill-walking and so on, there is plenty of room for expansion.

Tourism is one of many sectors of the Greek economy where foreign investment has always been low, partly because of economic instability and partly because of bureaucratic obstacles. “By entering the euro, we have dealt decisively with the first factor and now we are working to get rid of the second,” says Nikos Christodoulakis, the economy minister, a British-trained academic and a pragmatic number-cruncher.

Among the problems Greece has yet to tackle are an urgent need to update company law; an excessively burdensome and complex tax code; and an arcane and badly functioning pension system, combined with a rapidly ageing population, which could bankrupt the state in the decades to come unless something is done.

In September Mr Simitis announced tax breaks for individuals and families worth *euro*1.4 billion, and simpler company taxes and book-keeping obligations. A move in the right direction, said Ulysses Kyriacopoulos, head of the industrialists' association; the opposition, predictably, called for bolder measures, including a cut in the corporate tax rate.

As for the pension problem, the government earlier this year made some tentative moves to reorganise the system, but had to retreat from radical reform under heavy pressure from unions and other lobbies. It will take huge political courage—or the threat of more wrath from Brussels—for a Greek government to grasp this nettle.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The war of the olive branches

Oct 10th 2002
From The Economist print edition

There is nothing absolute about the rule of law

WHAT happens when the authority of the law clashes head-on with an organ of executive power? In most democracies, the answer is easy: the law prevails. But in Greece, it seems, things are not so simple.

The olive groves of Corfu are among the few places in Europe where crops are regularly sprayed with pesticides from the air. The people on the island—a lovely, verdant place where all trees, including olives, grow much taller than elsewhere in Greece—are deeply divided over the practice. What seems clear, though, is that crop-dusting as carried out in recent years— using helicopters to spray the groves with a substance known as lebaycid—has been outlawed on environmental grounds by a European Union directive, which has been endorsed and reaffirmed by the Council of State, Greece's highest constitutional authority.

The agriculture ministry in Athens and the Corfiot prefecture or regional government, which is directly elected, have been tussling over who should take responsibility for protecting the crop and who should pay for it. The prefecture acknowledges the need to find an alternative to lebaycid but wants more help from the ministry in Athens. According to the Ombudsman's office—a new Greek institution that is supposed to protect citizens' rights and uphold the rule of law—both parties to this squabble have at least one thing in common; neither seems at all concerned about what the law says.

The ministry, charges the Ombudsman, has violated the law by allowing crop-dusting to go ahead in 2002. And the prefecture in Corfu will be doubly in breach of the law if it allows crop-dusting to proceed in open violation of the conditions laid down by the government in Athens, which include carrying out a new ecological study and defining precisely the area to be sprayed. The Corfu administration says meeting those conditions would not be practical, but seems determined to go ahead with spraying.

So what happens now? The prefect of Corfu has insisted that his first responsibility is to his voters, and that he has a clear mandate from them to handle the question as he sees fit. But surely there is some procedure whereby the decisions of the Council of State are put into effect, even if headstrong local governors disagree? Apparently not. The Greek constitution lays down that the decisions of the Council of State must be implemented, and violators will be held to account. It also calls on parliament to pass a law laying down how this should be done. Such legislation has only just been drafted. Until it is passed, the decisions of Greece's most distinguished judges and constitutional experts will be drowned out by whirring helicopters.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Roll out the welcome mat

Oct 10th 2002
From The Economist print edition

Greece's foreign workers arrived uninvited, but now the country could not manage without them

NEXT time you visit Athens and try out a carefully practised Greek phrase on your chambermaid, do not be surprised if you receive a blank look. The person serving you may well be a native Russian or Albanian or even Urdu speaker, and know even less Greek than you do.

For a country that until recently was making a conscious effort to remain as homogeneous as possible—providing a home for Greek Orthodox, Greek-speaking people, and tolerating minorities only grudgingly, if at all—this is an extraordinary turn of events. About 800,000 immigrants are at work in Greece, making up nearly a fifth of the labour force. Together with their dependants, they add up to an immigrant community of 1.2m or so. Even ten years ago the idea of opening the gates to hundreds of thousands of newcomers would have appalled many Greeks, but the influx happened of its own accord, and the result has been surprisingly benign.

Greece has absorbed huge waves of immigrants before, but they were all Greek Orthodox Christians, and indeed selected on that ground. In 1923, when Greece and Turkey settled nearly two decades of fighting with a massive population exchange, the only criterion used was religion. Over a million Christians (some of them monoglot Turkish speakers) were deported from Anatolia, and hundreds of thousands of Muslims (some of them Greek-only speakers) were dispatched from Greece to Turkey. By turning Greece into a country that was 97% Orthodox Christian, at least in name, the population swap made church and nation seem even more inseparable. To be Greek was to be Orthodox, most people thought, and the church hierarchy did nothing to discourage the idea.

The arrival of hundreds of thousands of new residents in Greece, from many different cultural and religious backgrounds, has therefore posed a considerable challenge for the guardians of Greekness. Among the few policy questions that have raised strong passions among the Greek public recently have been those to do with religion, nationality and identity. In 2000, hundreds of thousands of people took part in demonstrations organised by the church against a proposal to remove all reference to religion on identity cards—though in the end the church drew back and the proposal went through.

Now another public row is looming. A government committee has suggested that it should be made easier for families to opt out of the (Orthodox Christian) religious education that has hitherto been compulsory in state schools. The church has insisted that parents who want such an opt-out should have to register formally as atheists or adherents of some other faith. This time the government, mindful of the fracas over identity cards, is proceeding cautiously, and seems to be shelving the recommendations of its own committee.

Attached as most Greek people still are to their Hellenic and Orthodox identity, they have so far been relatively tolerant of the foreigners in their midst. Polls suggest that most of them recognise the economic benefits to the country of migrant labour. Three or four years ago, a spate of burglaries and other violent crimes—in a country that has hitherto been relatively safe—were widely blamed on Albanians, but more recently public concern has ebbed. Another reason for the absence of racial tension may be the low profile kept by immigrants. They have not asked for the right to establish schools teaching in their own language, or many places of worship or cultural institutions. The furious debate sparked by proposals to build a mosque in Athens for the Olympic Games demonstrates how sensitive such issues are. In this Sunday's election, very few immigrants will have a vote.

Porous borders

In the early 1990s, after communism collapsed and Yugoslavia descended into war, Greece virtually lost

control of its borders. Albanians, Bulgarians and other East Europeans came flooding into the country in search of work, and found it easily because they were not fussy about the jobs they took. By 1996, there were about 600,000 foreigners living in the country, most of them Albanians, but also increasing numbers of Pakistani traders, Polish builders and decorators, Filipino household servants and nurses, and unskilled workers from Africa.

As long as they concentrated on menial work, they posed little threat to Greek workers. Indeed, the influx of cheap labour had the perverse effect of keeping alive rural communities in Greece where smallholders might otherwise have abandoned the struggle and moved into town. But as soon as foreigners began to take jobs in construction—thus competing with Greek workers, who commanded vastly higher wages—union leaders began to campaign for foreign workers to be registered and for their employers to be obliged to pay social-security contributions.

In an initial wave of legalisation, starting in 1998, 370,000 non-legal workers applied for work permits, 60% of whom were successful. Last year a new law was passed that tries to micromanage local demand for labour. Fortunately it may be too unwieldy to work in practice. Meanwhile the 365,000 people who applied this time have been given temporary work permits.

For all its good points, migration to Greece has one dark side to it: the illegal trafficking in thousands of women and children brought into the country to work in the sex trade. Human-rights agencies have repeatedly criticised the Greek authorities for not doing enough to protect the victims. A new law has been drafted, but critics say it still puts too much onus on victims to prove they have been coerced.

The economic benefits to Greece from illegal migrant labour were probably at their greatest in 1996, when they added about 1% to GDP, according a study by Professor Louka Katseli of Athens University. Over the next few years, the social and economic consequences for Greece of being multicultural are likely to grow more complex as the immigrant workers settle and raise families. The share of children from immigrant homes in Greek schools is rising; greater demands are being made on the state health system; and the immigrants themselves will one day become more forceful in their calls for some say in the affairs of their adopted country.

Tasos Giannitsis, the deputy foreign minister, says migration will be a main theme of Greece's forthcoming presidency of the EU. The ministry is working with the Migration Policy Institute, a Washington think-tank, to come up with ideas that a number of European countries might find useful. There is a political agenda here. If a moderate socialist government in a country that has rapidly moved from homogeneity to diversity can tackle migration successfully, that will deal a powerful blow to the extreme right everywhere.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Good neighbours

Oct 10th 2002
From The Economist print edition

These days, Greece's interest in the Balkans is reassuringly commercial

UNTIL quite recently, the hills and forests of the Greek-Bulgarian border used to be one of the wilder places in Europe: a heavily-guarded cold-war flashpoint, a giant killing field in the second world war and, further back, a battleground in a series of bloody contests to supplant the waning power of the Ottoman empire.

These days, the only battles at the Promachonas border crossing—the very name of which evokes armed clashes—are commercial and bureaucratic ones. It has become one of the busiest entry points to the prosperity of the European Union. On a bad day, the queue of vehicles on the Greek side, mostly Bulgarian truckers waiting to go home after stocking up in Salonika, can be 7km (four miles) long.

Promachonas is steadily becoming much more than a border post. A consortium of Greek firms and local government agencies, known as Procom, is turning the place into a vast commercial emporium where individuals and, above all, shops and other small businesses from all over the southern Balkans can stock up on consumer durables, household goods or designer clothes without going more than few hundred yards into Greek territory.

With customs officers on hand 24 hours a day, the time needed to buy goods in Greece, or take delivery of containers arriving by train from the port of Salonika, should be slashed. As Alexandros Martinis of Procom points out, the southern Balkan countries now import around $3 billion-worth of consumer durables a year. Their GDP is growing at over 4% a year, albeit from an abysmally low base, and their taste for consumer goods is increasing even faster. If a small fraction of that business comes through Promachonas, it will be a boon for what used to be one of Greece's poorer regions.

If Greek firms have an instinctive feel for business trends in countries to their north, that is because their own country has undergone an almost equally rapid transition in recent memory. To some extent, they can anticipate the Balkan countries' needs by recalling their own habits in those leaner times.

Chipita, a food manufacturer, is one of the Greek companies that have adapted their fare to suit the tastes—or the pockets—of poorer Balkan countries. Its mini-croissant, at *euro*0.60, is a favourite with Greek snackers, but it is too expensive for many peckish Bulgarians, so both the recipe and the size have been adjusted to make the product more affordable.

Similarly, in the poorer bits of post-communist Europe every householder is, perforce, a keen builder-decorator; so when NBG Venture Capital, an investment fund, took a stake in Monsieur Bricolage, a DIY shop in Sofia, it was delighted with the results. NBG's parent, the National Bank of Greece, owns several big banks in Bulgaria and Macedonia and has branches all over Serbia.

Alpha Bank, which blazed a trail for Greek capital by starting a subsidiary in Romania nearly a decade ago, reckons that Greece's investment in the Balkans is already worth $6 billion. With an increasingly dense network of holdings in sectors ranging from telecoms and energy to finance and cement, Greece's business world is signalling its long-term commitment to the prosperity and stability of all its neighbouring states.

Barely a decade ago, crowds of up to a million were demonstrating on the streets of Athens and Salonika in protest against the “appropriation”—as they saw it—of the name “Macedonia” by a new independent state on their northern border. The dispute over the right to use the name remains unresolved, but Greek relations with its northern neighbour have been transformed as commerce has taken precedence over arcane historical arguments. Last July, ministers from both countries attended a grand ceremony to mark the opening of a pipeline from Salonika to Skopje, capital of the country which Greece still insists on calling the “Former Yugoslav Republic of Macedonia”. The pipeline is transporting crude oil from Greece to

a refinery at Skopje, which was bought in 1999 by Hellenic Petroleum, the Greek state oil company. The refined oil will be sent north to Kosovo in a second pipeline now being built.

If relations between the governments in Athens and Skopje have sharply improved, it is partly because both countries, as well as many EU members, are worried about armed Albanian militancy, which is sometimes closely linked with organised crime. But these days, Greek diplomacy in the Balkans is not simply a matter of siding with traditional friends, as it was in the early 1990s, with sometimes explosive consequences for Greece's relations with the western world. More recently Greece has tried to maintain cordial relations and discreet lines of communication with just about everybody in the Balkans, including Bosnian Muslim or ethnic-Albanian politicians who would not previously have been welcome in Athens.

Make money, not war

Instead of seeing the Balkans as a series of zero-sum contests in which only one or the other side could win, Greece's foreign ministry has been leading efforts in the region to promote cross-border co-operation and create so much mutual dependence that a return to war would be inconceivable.

How important are the Balkans for Greece? Challenge a Greek economist to say where the country will turn when transfers from the European Union and Olympic investments dry up, and the glib answer is that the Balkans will fill the gap. By 2006 or so, the southern Balkan states will be well on the way to joining Europe's mainstream, and will be eligible for a steady stream of aid. Greek builders, banks and retailers will help them spend their money.

Such hopes may be fanciful. Across much of the Balkans, industries and mines are rotting, devastated by sanctions, war damage or neglect; many of them will never be reconstructed. This deep slump has depressed the volume of industrial exports though the port of Salonika, and it will be a while before large numbers of Balkan citizens can afford to use the passenger ships that sail out of the harbour.

Still, the very fact that Greek aspirations in the Balkans these days are more commercial than strategic is a change for the better. “We have discovered the virtues of soft power,” says Theodore Couloumbis, a professor of international relations at Athens University. Not before time, you might say: when communist Yugoslavia began its slide towards disintegration and war in 1990, the reaction in Greece, as elsewhere, was one of fear and atavistic passion.

Just as Croatia cultivated its old links with the German-speaking world, Greece instinctively sided with Serbia, its ally in half a dozen wars over the past two centuries. Whereas the western world recoiled in horror over ethnic cleansing by Serb nationalists, yet was prepared to make excuses for similar crimes committed by Croats or Bosnian Muslims, Greek public opinion reacted in the opposite way. Serb misdeeds were played down in the Greek media and those of other parties to the war played up. Volunteers from Greece who served with the Bosnian-Serb forces received sympathetic coverage in their homeland's press.

In 1999, when NATO waged its air war against Serbia, Greek public opinion—from conservative Orthodox bishops to Marxist intellectuals—reacted with almost unanimous rage. The government showed skill in giving the alliance the bare minimum of logistical support, as required by its NATO membership, while avoiding any direct involvement in the air war.

Three years on, the passions that war aroused in Greece have subsided. The hope is that the frequency of cross-border business deals, oil flows, shopping trips—all the workaday things that bind nations and people together—will help to keep conflict at bay.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Blowing hot and cold

Oct 10th 2002
From The Economist print edition

Can Greece and Turkey become true friends?

WHEN Kemal Dervis, a World Bank technocrat turned Turkish finance minister, hopped over to a Greek island for an international brain-storming session last July, he was greeted with back-slapping and bonhomie. George Papandreou, the Greek foreign minister, had invited politicians and academics from all over Europe and North America, who gathered round in their shorts and T-shirts to hear Mr Dervis and others hold forth on world trade, the future of social democracy and the economic effect of AIDS.

Anyone watching the light-hearted banter between Mr Dervis and his Greek hosts on the island of Samos, barely a mile from Turkey, might have concluded that the historic antagonism between the two nations had at last come to an end. Now that Greece is no longer blocking Turkey's application for EU membership—a long-standing source of bitterness—surely the Aegean neighbours should be able to co-exist contentedly?

Such a conclusion, however, would be premature. Almost the only observation that can safely be made about the relationship between Greece and Turkey is that it is among the most emotionally charged in the world. Millions of families in each country adorn their walls with sepia photographs of relatives who died in Greek-Turkish wars. At the same time, both peoples have vivid memories of living side by side—albeit rarely intermarrying, and divided by the all-important factor of religion—as subjects of the Ottoman empire.

The two countries, intertwined more closely by heritage and history than either cares to acknowledge, can never be indifferent to one another. When relations improve—as they did in the 1930s and the early 1950s—the reconciliation can be ebullient. But the temperature can change as abruptly as the weather in the Aegean, and the real warming that has taken place in the Greek-Turkish climate over the past three years is by no means irreversible.

Nor can it be, until there is some resolution of the dispute over Cyprus, where heavily armed Turks and Greeks face each across a partition line established in 1974. Following a short-lived coup d'état by ultra-nationalist Greek-Cypriots, with backing from the military officers then ruling in Athens, Turkish troops occupied the island's northern third and forced a massive population exchange.

Cyprus is by far the biggest Greek-Turkish issue, but there is also a host of disagreements over seabed exploration rights, territorial waters and air-space rights in the Aegean. Even in the waters and skies close to Mr Papandreou's cheerful summer symposium, there were Greek and Turkish ships and aircraft keeping a careful eye on each other's movements.

Armed to the teeth

A residual fear of Turkey is the main reason why Greece maintains one of the highest levels of defence spending per person in NATO (see chart 3). Earlier this year, the Greek defence ministry awarded a keenly contested arms contracts—an order for 170 tanks—to Krauss-Maffei Wegmann, a German contractor. Even though western governments often urge Greece and Turkey to bury the hatchet, the two countries' mutual antagonism has been a boon for weapons manufacturers.

Is it really conceivable that two NATO allies would ever fight each other? As weary NATO diplomats vividly remember, Greece and Turkey came to the brink of war in 1996 over a tiny islet in the

south-eastern Aegean; less well known (because Europe had other things on its mind at the time, including Kosovo) is that the two sides came very close to a clash in early 1999, when Abdullah Ocalan, leader of the Kurdish uprising in south-eastern Turkey, was nabbed in Kenya and turned out to have been given safe passage by Greece.

In the end, what changed the atmosphere between the two countries was something no Balkan-watcher could have predicted: severe earthquakes in both countries in which the two nations offered one another humanitarian aid and the two societies remembered, in an outpouring of emotion, how much they had in common. Since then, although none of the more serious differences has been resolved or even eased, there have been signs of a rapprochement between the two peoples. Small-scale trade has flourished, musicians have played together and it has become fashionable, in both Greece and Turkey, to have friends or business partners on the other side.

But investment between the two countries is still very limited, mainly because of the political uncertainty. For example, NBG Venture Capital, a unit of the National Bank of Greece, recently became the leading shareholder in a Turkish private equity fund; and Cardico, an Athens-based food company, bought a hazelnut factory on Turkey's Black Sea coast. But such deals remain pretty rare.

And even in the couple of months since Mr Papandreou's seaside get-together, the outlook for Greek-Turkish ties has become much less certain. A political crisis in Turkey triggered by the illness of the prime minister, Bulent Ecevit, has thrown the country into turmoil. The two people in Ankara most trusted in Greece, Mr Dervis and Ismail Cem, until recently the foreign minister, are now out of office, pending elections in early November.

Another reason for jangling nerves is the approach of EU membership for Cyprus. This is a critical moment—perhaps the most critical since the drama of 1974—for the island's political future. Nothing fundamental has changed in the past 28 years: Turkey has maintained the military advantage, in the form of a 30,000-strong garrison on the island, whereas the Greek-Cypriot side has retained the diplomatic and moral high ground, including a monopoly of international recognition and a raft of UN resolutions calling on the Turks to withdraw their troops and make way for the island's reunification.

Now, as the EU prepares to approve the accession of Cyprus and nine other countries, this unsatisfactory but more or less stable state of affairs is bound to change. Under a formula that was supposed to boost the chances of a settlement, the Union has promised to admit Cyprus, with or without a successful conclusion to this year's slow-moving talks between Greek-Cypriot and Turkish-Cypriot leaders. In theory, the prospect of a political settlement, to be swiftly followed by admission to the Union, should appeal to the Turkish-Cypriot community. Instead of languishing under a partial economic embargo imposed by the Greeks in protest against the 1974 invasion, the Turkish Cypriots would see their living standards soar, with help from Brussels.

But Rauf Denktash, the community's veteran leader and president of the unrecognised Turkish-Cypriot state, does not see things that way. Along with several leading politicians in Ankara, he has given warning that if the Greek-Cypriots were to enter the EU alone, his side would retaliate; northern Cyprus would move much closer to Turkey, giving the government in Ankara responsibility for its defence and foreign affairs. That could scupper indefinitely any chance of reconciliation on the island, raise the level of military tension and plunge relations between Turkey and the EU into the deep freeze.

The Greek side is confidently predicting that Turkey will not, in the end, go to the brink over Cyprus because that would prejudice its own prospects of EU membership. But over the past two centuries, Greeks have often misread Turkish intentions. Turkey, for its part, will press for a firm date for talks on its own accession as its price for giving ground on another issue: the European Union's proposed Rapid Reaction Force, which nationalist Turks, British Tories and American hawks alike suspect of being a ploy to undermine NATO and weaken transatlantic links.

On what terms, if any, will the government in Ankara bless the Euro-army's creation and agree that some assets from NATO, of which Turkey is a leading member, should be put at the new force's disposal? A deal brokered between Britain and Turkey, under which the EU would take account of Turkish interests in planning military operations, was rejected by Greece, which then won the approval of its European

partners for a slightly different formula to govern EU-NATO relations; but Turkey says the earlier agreement must stand. Unless this knot is untied, the European Union's hopes of playing a bigger role in its own defence will be dashed.

Greece's role in defence matters in the Union is pivotal at the moment because of a quirk of EU procedure. The country is due to assume the Union's rotating presidency in January, but because Denmark, the current president, has opted out of the EU's military activities, Greece has already been presiding over the Union's defence deliberations since July, so it will have a whole year in the chair.

One thing that could upset all calculations is an American attack on Iraq, in which Turkey would play a vital strategic role, strengthening its diplomatic hand. But whatever happens, the goodwill that Mr Papandreou built up on that beach in Samos will be badly needed.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Enduring virtues

Oct 10th 2002
From The Economist print edition

Greece's political dynasties go on and on

FOR most of the past two centuries, one of the functions of Greek politics was to provide a network for favour-swapping and patronage. The Greek power-broker of the 19th century might cut a sophisticated figure in Paris or Berlin, but his effectiveness back home depended on the more basic skill of looking after a vast number of “clients”—shading into the world of banditry—who expected personal favours.

One Karamanlis, Mitsotakis and Papandreou after another

Even in recent times, the form of patronage known as *rousfeti* was alive and well. Humble folk would queue up outside a minister's office with all manner of requests. Could the minister find a job for a doltish cousin? Could nephew Yannis, about to begin his military service and suffering from asthma, be found a safe post at the defence ministry in Athens? Could chiropodist cousin Anna, who needed time to look after her aunt, be found a post in a government clinic near the bus station? A politician would have hundreds of godchildren, send them cards on feast days and, if possible, attend their weddings and funerals. As long as he honoured his obligations, the “patron”—and any of his kin who entered politics—could expect the unswerving loyalty of the client and his kin.

Any modern politician will insist that it is all different now. People rely less on the state because there are more opportunities in the private sector. And in principle, everybody agrees that the civil service is overmanned; no incoming minister would dare to stuff his or her department with large numbers of protégés. Perhaps. But there is one aspect of Greek politics that is remarkably enduring: the loyalty that voters feel for familiar old surnames— even if the policies, and political styles, are entirely new.

The names that are likely to dominate Athenian politics for the next decade would be totally familiar to any Rip Van Winkle who had gone to sleep in the early 1960s. At that time, Athens was still reeling from the departure, to self-exile in Paris, of Constantine Karamanlis, the prime minister of the day. His successor, George Papandreou, lost power after a dissident group of centrists, led by a tall Cretan named Constantine Mitsotakis, switched sides—to the fury of the prime minister's firebrand son, Andreas Papandreou, who vowed revenge.

Time warp

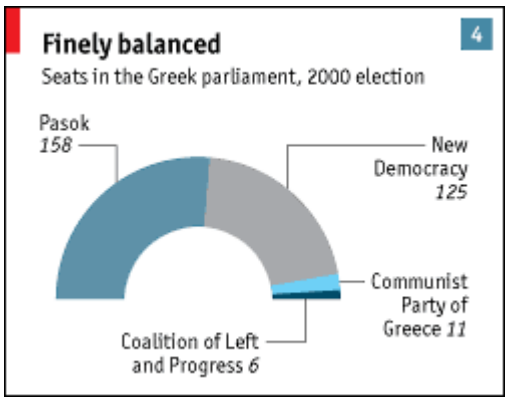
Switch to 2002. Greece's current conservative leader (and prime minister-in-waiting, if the polls are correct) is called Constantine Karamanlis, a nephew of the elder statesman who eventually returned from Paris and restored democracy in 1974, after seven years' military rule. If the conservative New Democracy party gains power in the next election, the heir apparent of the socialists—and almost certainly a future prime minister—will be George Papandreou, eldest son of Andreas and named (like most first-born sons in Greece) after his paternal grandfather. The second-ranking figure in the conservative camp, and top of the popularity polls, is Dora Bakoyianni, the daughter of Mr Mitsotakis. She is tipped to become mayor of Athens in the local elections this weekend.

These latest scions of Greece's best-known dynasties would all claim to have preserved the best of their forebears' political heritage yet to have adapted skilfully to the modern world. True or false?

Karamanlis senior, a schoolmaster's son from northern Greece who became a towering figure of modern Greek history, was an austere personality who was impatient with his compatriots' failings. His nephew cuts a more easy-going, affable figure, with a love of football and a taste for worry-beads that will put ordinary voters at their ease. Asked whether New Democracy has changed since his uncle founded it nearly 30 years ago, he retorts that it was less in need of change than Pasok, the Panhellenic Socialist Movement established by Andreas Papandreou. Whereas Pasok in its early days spoke the language of third-world radicalism, New Democracy was pro-business and pro-western from the start.

But the ideological climate in most western democracies has shifted a long way towards the free market in the past three decades. Has Mr Karamanlis junior not felt some pressure from his British and American friends to abandon his party's image as a standard-bearer of Christian Democratic paternalism and take a more liberal line instead? As an ally of Germany's Christian Democrats in the European Parliament, Mr Karamanlis answers carefully. Yes, privatisation should go faster and further, and it should be more transparent; there should be bolder moves to deregulate energy and telecoms. But he believes the state has an important role to play—"not as a producer or merchant", but as a guarantor of justice, a provider of health, education and a social safety net.

If his party came to power, would he be immune to the temptation of *rousfeti*? It is true, he acknowledges, that in years past "traditional politicians" of all stripes had practised *rousfeti*—but merely in a "amateurish, Mediterranean way". Only under Pasok, which had held power for 17 of the past 21 years, had a new form of clientelism emerged, with hundreds of thousands of new appointments to state jobs. But in euro land, the scope for such tactics was now exhausted.



At the same time, he says cautiously, an incoming New Democracy government would have to cope with social grievances and serious regional inequalities. So a policy based on the free market, combined with a leaner but more effective state, would have to be "carefully explained".

New generation

What the two Karamanlises had in common, despite their different characters, was their carefulness. Perhaps a more dramatic generational change has taken place in the Papandreou family, where George has inherited his father's mannerisms, thick eyebrows and bald pate but has an entirely different political style. Having spent much of his youth in Sweden, Canada and the United States, and taken a sociology degree at the London School of Economics, George Papandreou is a product of the Anglo-Saxon or north European centre-left, with its belief in forging consensus where possible and adapting pragmatically to change. He became foreign minister in early 1999 at a time when Greece's relationship with the western world was on a knife-edge—because of a furious popular reaction to NATO's bombing of Serbia—and tension with Turkey was close to snapping.

Where his father was by temperament confrontational, the younger Papandreou is more inclined to build bridges and stress the positive. Andreas Papandreou had an instinctive sense for the Greek people's collective gripes, and for the wrongs felt by particular social groups. He wooed adoring crowds by telling them that their country's woes were mainly the fault of others. This proved a vote-winning formula, but it

did not gain Greece many friends abroad.

George Papandreou, by contrast, is highly sensitive to the political realities of the outside world and has displayed a degree of artfulness in conveying those realities to the Greek electorate. He has invested huge political capital in forging reconciliation with Turkey, so far without anything very concrete to show for it other than a vast improvement in Greece's international image.

Amid grumblings from some of the old guard in Greece's diplomatic service, Mr Papandreou has surrounded himself with a coterie of loyal advisers, most of whom have lived abroad and share his talent for languages and networking. Few Greek foreign ministers of recent times have been as respected by their opposite numbers in NATO and European Union countries. Ironically, though, the foreign minister owes some of his freedom to “take risks for peace” to the Papandreou family mantle—and the family's network of loyal supporters. Where necessary, he can be a tough back-stage fighter in the ruthless world of socialist party politics.

Whether because of his name or his own virtues, George Papandreou would easily win a personal popularity contest with the younger Karamanlis. However, he would find it much more difficult to outshine Mrs Bakoyianni of Mitsotakis fame. Nearly as tall as her father and equally imposing, she has inherited her family's huge network of personal connections on the island of Crete. Having recovered bravely from the killing by terrorists of her husband Pavlos, Mrs Bakoyianni is a formidable personality in her own right. In her campaign to be mayor, she has held a series of public meetings all over Athens and won a sympathetic hearing, at least, from many people who might never vote for a male Mitsotakis.

Her campaign promises include the provision of underground car parks to remove cars from the street and ease congestion; traffic lanes for ecologically benign forms of transport; more police; a municipal ombudsman to blow the whistle on city-hall corruption; and more help to immigrants, especially immigrant women, to learn Greek and become integrated into society. These ideas are not necessarily new, but she expounds them with great passion and panache.

How much longer will Greece's old families continue to enjoy this sort of name recognition, which newcomers have no hope of emulating? Powerful as the political dynasties are, there are signs that a new aristocracy of sports personalities and actors is gaining a growing hold on the public imagination. All political parties, both right and left, have recently taken to including basketball players and soap-opera stars on their lists of candidates in the hope of reviving voters' interest in politics. These days television's Dynasty, or its Greek equivalent, may prove a stronger pull than the political sort.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The road to Marathon

Oct 10th 2002
From The Economist print edition

After a few false starts, the Olympics now seem to be on course—but only just

WILL it be all right on the night? If the organisers' dreams turn into reality, the Athens Olympic Games will mark a regeneration of the modern Olympic movement and, in a different way, of modern Greece itself.

“We want to restore the moral and ideological character of the games,” thunders Evangelos Venizelos, who as arts and sports minister is co-ordinating the $6 billion effort to prepare the country for its 17 days in the international limelight in August 2004. He speaks expansively of a contest that he hopes will be less overtly commercial than previous Olympics, restoring the principle of noble, amateur competition and promoting equality between different races, cultures and religions. “The games are coming home,” declared Gianna Angelopoulos, the forceful leader of the Athens Olympics organising committee. She spearheaded the city's campaign to play host to the world in 2004, and thus ease the bitter disappointment of losing to Atlanta in 1996. It is a measure of her popularity in Athens that this spring, during the pre-Lent carnival, many of the revellers were wearing “Gianna” masks.

The forthcoming contest will be a homecoming in two senses. The original Olympics were born in Greece and took place at a breathtakingly beautiful site in the Peloponnese every four years between 776 BC and 393 AD. But Athens is also the place where the modern Olympic movement began, with the 1896 games in which the sporting ideals of a Frenchman, Baron Pierre de Coubertin, came together with the deep pockets of a Greek tycoon, Georgios Averoff. This time, the plan is not simply to give the world an archaeology lesson but also to show off the talents of modern Greece. Dimitris Papaioannou, a choreographer, is expected to put on a superb opening and closing ceremony.

But between now and then, there will be much biting of nails and tearing of hair. When Athens won the games in 1997, the government claimed that 70% of the necessary sports facilities existed already, and there would be plenty of time to build the rest. In April 2000, the then president of the International Olympic Committee, Juan Antonio Samaranch, described three levels of preparedness for the games: green, meaning all was well; yellow, indicating serious problems; and red, where the games were “in danger”. Greece, at that time, was “at the end of the yellow phase.”

Since then, relations between the IOC in Lausanne and the Greek government have vastly improved. Looking back, the warning from Mr Samaranch may have acted as a necessary wake-up call. It convinced the socialist government to stop squabbling with Mrs Angelopoulos, a former conservative member of Parliament who is married to a shipowner. There have been some moments of irritation between the IOC and the Greek government; but with just under two years to go, the IOC now reckons that the necessary public works—new or upgraded sports arenas and big improvements in the transport system—can be completed on time, though without a day to spare.

Keep digging

For example, a suburban railway line connecting the main Olympic stadium with the new Athens airport has yet to be constructed. At present, on a bad day it can take 90 minutes to drive from the airport to the city centre. A new tram service, which will make it easier to reach the coast from almost anywhere in the greater Athens sprawl, has not got very far.

In June, the government announced a scaling-back of some of the Olympic projects because costs were spinning out of control. There would be one less hockey field, and temporary stands for many sports. In all, the measures would save up to $285m. The IOC raised no objection to this economy drive, but was aghast when problems emerged over the venue for the soccer final, though these have now been settled. To accommodate Olympic visitors, 11 passenger ships have been chartered.

Easily the most controversial building project has been the construction of a rowing and canoeing centre on a coastal site called Schinias, east of Athens and adjacent (though there is disagreement over how closely) to the battlefield of Marathon where the Athenians defeated the Persians in 490 BC. Four environmental groups have led a campaign against the development, on two grounds: first, that it would wreck one of the last havens of biodiversity near Athens (the site is home to 176 species of birds and a rare kind of pine forest); and second, that it would desecrate an important historic site where democracy won the day against overwhelming odds.

The Greek government, under strong pressure from the IOC to get started, decreed what it described as a compromise: the sports complex would go ahead, but extra care would be taken to preserve the area's biodiversity (which had been under threat anyway because of commercial development), and anything that was archaeologically important would be left alone. The protesters, who had gathered 11,000 signatures to oppose the artificial rowing lake, were left to lick their wounds.

However, in September the bulldozers unearthed some archaeological finds: houses from the pre-classical period, vases that seemed to be much later, and traces of a temple. Opponents of the lake said the discovery vindicated their interpretation of the ancient texts, which led them to believe that the construction site did include part of the Marathon battlefield; and it disproved the government's claim that the land in question had been under water in classical times. Whatever happens, the government will find itself squeezed between the IOC's wish to get things done and accusations of desecration from conservationists.

In one respect, though, the concerns of the outside world about the Athens Olympics have greatly eased. Not only has the government won a victory by arresting a group of suspected urban guerrillas, it is now preparing to spend $600m on guaranteeing the security of the games. A team of intelligence officers with experience in the American, British and Israeli security services has been set up to keep terrorists at bay. Nobody can accuse the government of neglecting its duty to ensure that the games have a safe homecoming.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

A bit more neocracy, please

Oct 10th 2002
From The Economist print edition

The young need more opportunities—and more engagement

AP

But is she a political animal?

DEMOCRACY is not, unfortunately, the only term in political science with a Hellenic etymology. Words like tyranny, despotism and gerontocracy (rule by the old) also have Greek roots. But there is no established term, in either Greek or Greek-derived English, for the opposite, rule by the young. Logically, it should be something like “neocracy or “neaniocracy.”

A little more neocracy may be exactly what Greece needs. Consider what has happened in the former communist countries to Greece's east and north, including the Soviet Union. Fifteen years ago these countries were gerontocracies of the worst kind: places where political power and economic privilege was so firmly concentrated in the hands of complacent old rogues that the young and energetic, who understood what needed changing, got absolutely nowhere.

In the more successful ex-communist states, the balance has now swung the other way: they offer thrilling opportunities for the young and bright, but they are tough places to be a pensioner—unless you have smart grandchildren to support you.

In quasi-capitalist Greece, gerontocracy never went to Soviet extremes, but it certainly persists. Many occupations—from medicine to politics, from academia to the civil service—are dominated by an elderly establishment which has made sure that long service is well rewarded and kept pesky young high-fliers in their place. And yet in a borderless world where youngsters in other countries are making their fortunes as software designers or rock stars, it will be hard to maintain a gerontocracy in one country alone.

The modernisation of the Greek economy has created some new opportunities for the young, even though their parents generally remain keen for them to follow traditional career paths. The middle-class boy who might once have aspired to a routine job at a state-owned bank or airline may well kick over the traces and become a foreign-exchange dealer or a mobile-phone salesman.

But if Greece's younger generation is to play a more active role in shaping the country's future, the first thing that must be improved is education. Ask any Greek employer what most needs changing about the nation's public services, and high on the list—along with excessive taxation, corruption and over-regulation—will be the school system.

Education is one of many areas of Greek life where a flourishing but shadowy private sector thrives on the inadequacies of an over-protected, over-regulated public sector. Because Greek parents are (justifiably) dissatisfied with the teaching of state high schools (especially in languages, or any sort of professional training), there are thousands of privately owned night-schools that aim to fill the gap. The elite (on the political left as well as the right) educates its children at smart private day schools (or even finishing schools in Switzerland), so there is little pressure for change from that direction.

State universities, despite pockets of excellence, are notoriously chaotic and non-meritocratic in hiring staff. For the would-be lecturer in search of a job, having a friend who is a senior professor at the establishment of his choice means more than teaching skills or published papers. These defects have spawned many private colleges, some of which have close ties to America or Western Europe. But in a host of ways—for example, by refusing to acknowledge their degrees as qualifications for the public sector—the state discriminates against such private establishments.

Greener grass

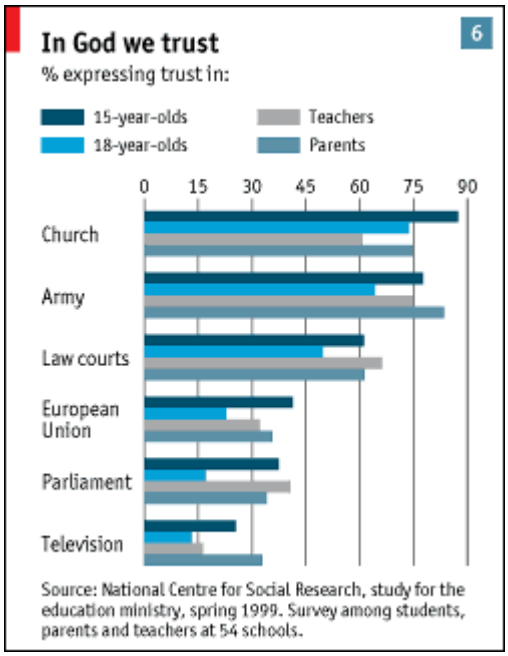
The net result is that many youngsters give up hope of getting a decent college education in their homeland and look elsewhere. On a per-head basis, Greece sends more students to universities abroad than most other countries in the world (see chart 5). Britain is the most popular choice; its 30,000 or so Greek students are a significant presence on campuses from Aberdeen to Exeter. This puts a strain on Greece's balance of payments, but in theory such a vast exodus of youngsters should bring tremendous benefits to their home country by making them more sophisticated and broadening their minds—provided that at least some of them eventually come back.

Sadly, the mind-broadening does not always happen. There are some mediocre establishments in Britain that specialise in handing out diplomas to impress Greek parents (but nobody else); and there are plenty of homesick students who spend hours on the phone to their families and have as little as possible to do with their temporary homeland. Still, there are also many talented young Greeks who get good degrees from the best universities in Britain, America or Germany. The difficult part is to make sure that these brainy boys and girls come home again.

For many years, the prospect of up to two years' service in the armed forces has put young men off returning. If you have just graduated *summa cum laude* from Harvard or Yale, manning a sentry box on the Greek-Turkish border or sharing a ship's cabin with 30 seasick youths seems a waste of time. Yannos Papantoniou, the defence minister, recently announced a gradual shortening of military service, but a professional army—which most European now have—is still some way off.

If Greek society is to thrive in the early 21st century, it will have to find ways of harnessing the talents of its young people—by investing more in the education system, by persuading those who have studied abroad to return to Greece, by finding decent jobs for them, and by curbing the special-interest groups (from high-school teachers to retailers) that dominate many areas of Greek life and get in the way of bright young people.

If that is done, it will be up to the youngsters themselves to find new ways of combining the Greek and the cosmopolitan, the local and the global. “Our generation will have to find a different mixture of the old and new,” says Yannis Solos, a 25-year-old practitioner of Byzantine church chanting, a tradition going back more than 1,000 years. He is now immersed in a very different tradition, Chinese herbal medicine, which he is studying in Beijing.



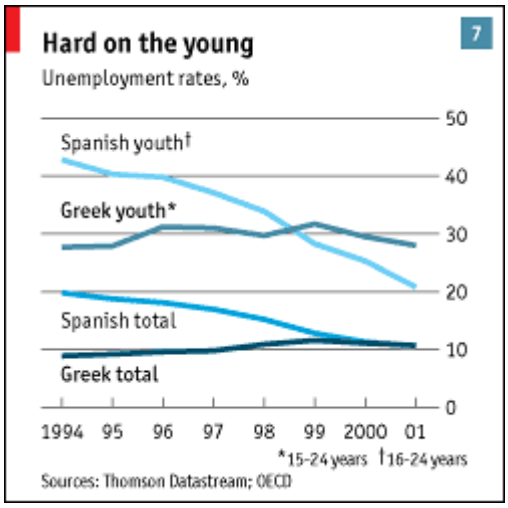
Perhaps the biggest challenge facing young Greeks is that there are not many of them. Along with Italy and Spain, Greece has seen a plunge in its fertility rate. Combined with prodigious longevity, especially among women, this has produced an extraordinary demographic effect. On current trends, by 2015 the number of Greeks aged between 15 and 24 will have fallen by nearly a quarter from the current figure, whereas the number of octogenarians will have increased by 70%.

One way in which young people in other European countries assert their independence—leaving home and finding a place of their own to live—is, for better or worse, much less prevalent in Greece. For all their reluctance to reproduce, Greeks of all generations take family life very seriously. Compared with other countries in the European Union, the number of births outside marriage is very low; the average age at marriage is low (albeit rising); the age at which young people (including married ones) leave the parental home is high; and the divorce rate is low (though rising). Yet despite, or perhaps because of, the strong attachment to the family as an economic unit, Greece has an exceptionally high incidence of abortion. Appearances are all-important, and even the younger generation seems willing to make concessions to that principle, whatever it gets up to in private.

Young conservatives

One big question facing young people is how they will cope with the immigrants in their midst who offer the only hope of keeping the economy growing reasonably fast. That question is still wide open. Sometimes the anecdotal evidence is encouraging, sometimes not. When a row broke out a few years ago over whether an Albanian pupil at a Greek high school should be allowed to carry the national flag in a parade—a privilege traditionally granted to the best student in the class—his strongest supporters were his (mostly Greek) class-mates. But some young Greeks are remarkably conservative. Just listen to a selected group of schoolchildren called “the legislature of youth” that the Greek parliament invites every year to stimulate adolescents' interest in national affairs. These boys and girls make solemn, formulaic speeches about the welfare of their homeland which would come more naturally from a 50-year-old.

Daubed on the walls of university campuses, you can see both nationalist and anti-nationalist slogans. “The Aegean belongs to the fish,” is one wag's comment on Greek-Turkish arguments over territorial waters. But one striking sign of youthful conservatism is the ubiquity of the hammer and sickle; a small but significant section of Greek students remain doggedly loyal to the old-time religion of Marxism-Leninism. As for religion in the more traditional sense, a surprising number of young Greeks show more attachment than their parents to Orthodox Christianity—not only as a national institution, but also as a spiritual calling.



Whatever their ideology, the great majority of Greek youth—like their contemporaries in other countries—are much less interested in politics than their parents were; they are keener on music and the arts and on advancing their careers, and less inclined to believe that a change of political masters will make much difference to their lives. The waning of party loyalties—which used to turn campuses into battle-grounds more recently than in other European countries—is no bad thing in itself. But Greece very much needs its younger generation to become “political animals” in the broad sense in which Aristotle defined the term: people who are interested in society as a whole.

Among Hellenes of all generations, interest is rising in clubs, associations and lobby groups that cut across the old ideological divisions. Only a decade ago, Greeks automatically assumed that any new movement—of feminists, ecologists, anti-nuclear campaigners or even sports fans—would be a front for one political party or another; now they are much more inclined to take such movements at their face value.

According to Tania Ritsou of McCann-Erickson, an advertising agency, young Greek consumers have deep respect for their heritage. In particular, they are keen to recapture the vanishing rural world of their grandparents, whose customs and lore intrigue city-dwellers with busy modern lives. Recently, she says, this has translated into a taste for products that emphasise craftsmanship and high quality rather than superficial glitz, solidity rather than sophistication.

That is fine, but the younger generation of Greeks still has a lot of growing up to do. According to Nikiforos Diamandouros, a sociologist, the proportion of Greeks who have a mature attitude to the state—ie, who expect a fair and rational trade-off between civic rights and civic obligations—is still well under half. An absolute majority of Greeks of all ages—perhaps as many as 60% —still see the public sector as a source of personal bounty, just as it was in Ottoman times.

If Greece is to evolve into a mature European democracy, a higher proportion of young people—whether Christian or communist, traditionalist or revolutionary, home-birds or socialites—will have to commit themselves to changing that balance. And if they are to make a difference, more of them will have to be induced to stay in their homeland in the first place, or return to Ithaca before they become too exhausted by adventuring.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Acknowledgments and sources

Oct 10th 2002
From The Economist print edition

The author would like to express warm gratitude to the many people who gave generously of their time and knowledge in the preparation of this survey. None of them bears any responsibility for its conclusions. Particular thanks are due to Loukas Tsoukalis and others at ELIAMEP, a foreign-policy think-tank; Costas Mitropoulos of Kantor Management Consultants; Theodore Lelekas and others at Critical Publics, a consultancy; Yannis Ploumis of Ploumis Sotiropoulos, a property company; James Ker-Lindsay at Civilitas Research, Nicosia; Rebecca Camhi of the Sophocleous Street Gallery; and Dimitris Batzelis of the Financial Crimes Unit (SDOE). For economic insights, the author drew on analysts' reports by EFG Eurobank and SchroderSalomonSmithBarney; and on studies by the Foundation for Economic and Industrial Research (IOBE). The Western Policy Center has always been an invaluable resource on American relations with Greece, Turkey and Cyprus. The unconventional views on Greek society offered at http://www.athenian.net/ (in Greek, English and French) were appreciated.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Offer to readers

Oct 10th 2002
From The Economist print edition

Reprints

Reprints are available should you wish to order extra copies of the survey. Please send your request to the relevant region:

World-wide (excluding North America):

Rights and Syndication Department
26 Red Lion Square
London
WC1R 4HQ
United Kingdom

Tel: +44 (0)20 7576 8000
Fax: +44 (0)20 7576 8492
E-mail:rights@economist.com

North America:

Rights and Syndication Department
111 West 57th Street
New York
NY 10019
USA

Tel: +1 212 541 0532
Fax: +1 212 641 9808
E-mail:usrights@economist.com

Corporate offers and customised reprints

For corporate reprint orders of 500 or more and customisation options, please contact the Rights and Syndication Department in the relevant region:

World-wide (excluding North America):

Rights and Syndication Department
26 Red Lion Square
London
WC1R 4HQ
United Kingdom

Tel: +44 (0)20 7576 8000
Fax: +44 (0)20 7576 8492
E-mail:rights@economist.com

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Iraq's oil

Saddam's charm offensive

Oct 10th 2002 | NEW YORK
From The Economist print edition

As the risk of war grows, so does Saddam Hussein's generosity—and the willingness of some oil firms to profit from it

SADDAM HUSSEIN is on a charm offensive. Desperate to save his skin from the coalition that President Bush is seeking to build, he is busily trying to boost his own international support by doling out Iraqi oil to anybody he thinks will rally to his cause. Needless to say, the firms left out of this bonanza seem to be the American oil giants. If there were ever any truth in the talk outside America that Mr Bush's secret motive for an invasion was black gold, Mr Hussein is raising the stakes.

The deals now being done with Iraq may prove significant in shaping any post-invasion politics, since its oil is among the industry's most coveted. The country sits atop over 110 billion barrels of proven reserves (and possibly more), the second-largest in the world after Saudi Arabia's. And if reports of a flurry of deal-making by Mr Hussein turn out to be accurate, says Robert Mabro, the head of the Oxford Institute for Energy Studies, “then there's not much left in Iraq for the Americans!”

Mr Hussein has been using oil as a political weapon for years. At unexpected times, he has suddenly cut off exports to rattle the markets, to complicate OPEC's market manipulations or to protest against America's support for Israel. Now, with an invasion looming, he is doing the reverse: in the past few weeks, he has more than doubled exports of oil.

This is, admittedly, from depressed levels. The United Nations, which supervises sales of Iraqi oil, had cracked down on illicit surcharges that Mr Hussein had been tacking on to his exports. That measure, as well as the UN's new policy of setting the price that purchasers must pay for Iraqi oil some weeks after they have bought it, had driven away all but the shadiest of customers. To win back the big boys, Mr Hussein has now dropped the surcharges. Rumours suggest that he has secretly offered to compensate oil companies if they lose because of the UN's new pricing policy.

Axis of evil?

Such manoeuvres seem to have paid off. In the past few weeks, leading firms such as TotalFinaElf (of France), Eni (Italy) and Repsol YPF (Spain) have signed bilateral deals to bring Iraq's oil to market. These European countries now have a greater incentive (should they need it) to think twice before supporting any invasion. Boosting exports also adds to the impact that disrupting the supply of Iraqi oil would have on global prices—a factor that might influence politicians even in America, given the fragility of the

world's economy.

Mr Hussein is also dangling drilling and service contracts. A few months ago, a Turkish firm cut a deal to drill in the north of Iraq. More recently, a team from Tatneft, an oil contractor from the Russian republic of Tatarstan, arrived to drill the first of what may be over 70 wells. That deal, believed to be the biggest for several years, is part of a much broader relationship that Mr Hussein has cultivated with Russian firms. Some industry insiders reckon that Zarubezhneft, the Russian firm for which Tatneft is working, may have secured oil concessions worth up to $90 billion.

The big prize is control of the country's oil reserves. UN sanctions forbid foreigners from investing in the oilfields. But that has not stopped firms rushing to sign contracts in the hope of exploiting fields when sanctions are lifted. Mr Hussein has long been handing out concessions to big firms from politically important countries. France's Total, for example, holds rights to potentially huge reserves in the country. The national oil companies of China and India (not hitherto regarded as oil powerhouses) have also been given slices of the pie. Even Royal Dutch/Shell has signed a deal with Mr Hussein.

As well as Zarubezhneft, a number of smaller Russian firms are doing a brisk trade with Iraq, in everything from oil supplies to drilling to spare parts. Lukoil, a Russian giant, has a majority stake in West Qurna, an enormous field holding over 11 billion barrels of oil; the firm plans to invest $4 billion over the lifetime of the field to develop it. To the annoyance of the Bush administration, Russia and Iraq even reached a deal a few weeks ago on “economic co-operation” in energy and related sectors, rumoured to be worth as much as $40 billion.

There are now over 30 deals signed and ready to be implemented the moment that sanctions are lifted. Compared with most international norms, Iraq's beleaguered leader has offered terms that seem pretty generous. For example, say analysts at Deutsche Bank, plausible rates of return are “of the order of 20%”. Some of these contracts are for exploring the vast western desert of Iraq, which some experts suspect could hold huge new reserves.

There are now over 30 deals signed and ready to be implemented the moment that sanctions are lifted

All this must be bad news for those excluded from the party: the Americans. Yet they do not seem too worried. That is because there is one teeny doubt about all these deals. Will they be worth the paper they are written on when Mr Hussein one day becomes a former dictator?

American oilmen insist that any new regime would tear up existing contracts. After all, they were signed by a ruthless tyrant with companies eager to keep him in office. Why would any democratic Iraqi government, especially one brought to power by America's efforts, honour them? The head of the Iraqi National Congress, an umbrella opposition group, has openly declared that “American companies will have a big shot at Iraqi oil”—if he gets to run the show. Assorted other opposition leaders have been touring Texas making similar promises to the oil giants.

Things could get messy, even so. The fractured and incoherent Iraqi opposition may be prepared to say anything to win friends and credibility. But Deutsche Bank's oil experts argue that, although a change of Iraqi regime would mean that “some kind of legal clear-out is inevitable, the history of political overthrows shows that root-and-branch bureaucracies survive intact, and there is a clear hope that the contracts will remain valid.”

That is why Russia's oil barons are pursuing a dual strategy to preserve their contracts. They are lobbying President Vladimir Putin to extract from America, in return for Russian support for an invasion, a promise to honour their contracts. Vagit Alekperov, boss of Lukoil, claimed recently that he had received “guarantees” from Mr Putin of such a deal. The Russians are busy schmoozing junior Iraqi bureaucrats in the hope that some will still be there if Mr Hussein goes.

Luis Giusti, a former boss of PDVSA, Venezuela's state oil company, points to his own country's recent experience. When Hugo Chavez ran for office he vowed to tear up contracts signed by the old government with foreign investors, arguing that they were exploitative. Once in office, the famously wacky leader did not dare to revoke the contracts.

It is hard to imagine that the American giants would not find some way to get a piece of the action in Iraq—or “Klondike on the Shatt Al Arab,” as some call it—post-Saddam. Still, his last-minute manoeuvring means they will probably have plenty of legal wrangles ahead of them. Things could get especially complicated if any regime change were the result of an internal coup rather than a more clear-

cut invasion. The dictator could yet make trouble even from his grave.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

American telecoms

Out of the ashes

Oct 10th 2002 | NEW YORK
From The Economist print edition

The endgame in the troubled telecoms industry is becoming clearer

IT TAKES a brave man to invest $30m in America's torched telecoms industry. But Wilbur Ross is doing it. It takes an even braver man to predict that the industry will soon revive. And who would dare to attach a date to this prediction? “It won't take more than a year,” breezes Mr Ross, a bankruptcy specialist whose shrewd investments over the years range from American steel firms to Japanese banks.

America's telecoms industry is not to every investor's taste. Scores of operators have gone bust. Several more big firms live at the mercy of their bankers. In the wholesale market—for everything except the last mile into the home or office—over-capacity continues to push down prices. The softening of demand seems without end. Capital spending could fall this year by a massive 34%, according to Morgan Stanley, an investment bank.

Telecoms-equipment makers such as Lucent now have a new “core competence”: downsizing. Even the mostly monopolistic local operators, the Baby Bells, whose retail markets were thought to offer sanctuary, are suddenly said to look exposed. The talk in Washington is that the regulators, who have only just begun to open America's local markets to competition, are now being persuaded to slam the door back shut.

It is just this sort of carnage which attracts bargain hunters such as Mr Ross. He has invested in a firm called 360networks, one of many fibre-optic wholesalers that borrowed heavily in the 1990s in the mistaken belief that Internet traffic would double every 100 days. When 360networks emerges from bankruptcy at the end of this month, it will have only $215m of debt, less than one-tenth of its burden when it went bust. The firm will also, says Mr Ross, have a completed network, customers and $100m of cash, with which it plans to buy bits of other bust wholesalers on the cheap. Another operator, Williams Communications, could emerge similarly refreshed from bankruptcy next month.

These new, low-cost producers will heap still more pressure on the remaining debt-laden wholesalers, notably Qwest, Level 3 Communications, Sprint and Broadwing, which are still trying to avoid going bust in the hope that demand might miraculously revive. As 360networks and similarly once-bankrupt firms relaunch themselves, however, Mr Ross is betting that the market will not take long to find out that this hope is false. That will produce short-term pain worse even than that already afflicting telecoms—but also a much clearer sense of what a healthy, less-indebted industry might look like.

If so, what will become of WorldCom, the disgraced giant that went bust in July claiming that its (supposedly market-leading) wholesale business was still making money? As WorldCom's accounting restatements grow, this claim looks increasingly suspect. The giant of the industry, AT&T, almost killed itself in the late 1990s trying to match WorldCom's margins, which turned out to be fictitious. Now its arch-rival is in bankruptcy, AT&T plans revenge. Criminal prosecutions for WorldCom's accounting fraud will destroy any value left in its brand. WorldCom's bonds trade at prices that suggest the firm will probably have to liquidate itself.

And what of the Baby Bells, whose retail markets supposedly face a fate similar to that of the wholesalers? Here, the crisis seems to dwell mostly in the imaginations of their lobbyists. For the first time since the depressed 1930s, the Baby Bells have begun to lose home-phone lines—to competition from wireless, long-distance and cable companies. But this erosion is likely to remain gradual.

Offsetting the lost business, meanwhile, are new long-distance revenues and the Baby Bells' large stakes in the wireless industry, which competes with them. Their share prices have fallen by more than the stockmarket average this year. But that may reflect the fact that, after a brief fling with the idea that

they could be growth stocks, the market has returned to the old view that these are highly regulated, low-growth monopolistic utilities.

The overall picture, then, is of an industry that continues to split down the middle. Their falling shares having stripped them of an acquisition currency, the Baby Bells will retreat to their core consumer market to fight the cable firms for a share of the household budget. That leaves the more innovative and faster-growing business market to a handful of big, less-indebted carriers that will emerge from the consolidation of the wholesale industry.

And top of the heap? AT&T, which will emerge, once its cable business is spun off at the end of this year, with the right-looking balance sheet, an unmatchable list of blue-chip customers and more data traffic than its two biggest rivals combined. Unlike its competitors, the rate of growth in AT&T's data traffic continues to increase, as customers sensibly opt for a strong carrier over weaker ones. Mr Ross plans to follow a similar strategy.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Regulating food and drugs

Safe and effective?

Oct 10th 2002
From The Economist print edition

The new boss of the Food and Drug Administration faces huge challenges

FEW things matter more than the safety and quality of food and medicine, and regulating those who produce them is a crucial task that falls, in America, mostly to the Food and Drug Administration (FDA). The performance of the agency has been under scrutiny from all parts of the political spectrum—from consumers scared by books such as “Fast Food Nation” into thinking that the FDA does too little to regulate of the food supply, to drugs firms that complain that the approval process for new drugs is too slow. And for nearly two years, the FDA has been grappling with these challenges without a boss.

Senator Edward Kennedy, who heads the congressional committee that vets nominees, has already rejected one candidate because of close ties to a biotech firm, and several others have also fallen by the wayside. This week, however, Mr Kennedy approved the White House's latest candidate, Mark McClellan, who, as *The Economist* went to press, was widely expected to be confirmed.

Trained both as a doctor and as an economist, Dr McClellan currently sits on the White House Council of Economic Advisers and is President Bush's key man on health-care policy. Before that, he served in Bill Clinton's Treasury department. Prior to entering politics, Dr McClellan spent most of his career in universities; he has no close ties to the pharmaceutical industry. That independence appeals to Mr Kennedy. But some experts wonder if his lack of drug-company experience and of exposure to industry practice may be a liability. Others, such as Henry Miller of the Hoover Institution at Stanford University, question whether he has the managerial skills to lead a huge organisation, with 9,000 civil servants and a $1.7 billion annual budget, responsible for regulating the public release of everything from cancer drugs to genetically modified salmon.

One thing to hope for is that his economics training will inject a dose of cost-benefit analysis into the agency, whose decisions create benefits that are hard to judge and whose costs, in terms of money and lives, are potentially high. Although opinion polls say that Americans have considerable faith in the agency, complaints abound. These generally fall into two categories. First, that its review processes are over-cautious and inefficient, driving up drug and product costs and causing delays that deprive consumers of potentially life-saving drugs. Second, that its review processes are inadequate, due to industry pressure or limited resources, allowing faulty goods to circulate.

Does drug testing take too long, as many in the industry claim? This is hotly debated, with much conflicting data flying around—just the sort of lies and damned lies that a skilful economic researcher should be able to clarify. Although the FDA seems to have sped up its reviews for most drugs in recent years, critics argue that its growing demands for data often delay the start of a review, in effect increasing the time and cost of trials. The FDA is also taking longer to review truly novel drugs and biotech products. Public pressure accelerated the approval of some AIDS drugs. Some in the industry claim that cancer drugs are not treated so favourably—witness the recent travails of ImClone's Erbitux (though arguably it is simply not up to scratch). Allowing drugs firms to pay “user fees” into a central fund to boost FDA manpower has also hastened approvals.

Against that, Ralph Nader's Public Citizen organisation would rather see the agency entirely financed from the public purse to avoid compromising its independence. Commercial concerns make the review process too secretive. Public Citizen notes darkly that drug recalls have risen since user fees were introduced in 1992—though a recent government report largely exonerated the FDA.

The FDA also suffers from a culture of “deadly over-caution”, says Sam Kazman of the Competitive Enterprise Institute. As a result, reviewers focus more on risk than benefit, and underplay the cost in lives and quality of life resulting

The FDA also suffers from a

from approving a drug later rather than sooner. Changing that should be a priority for Dr McClellan.

culture of “deadly over-caution”

Manpower is a big issue. The FDA's overworked biologists and statisticians are leaving at almost twice the rate they do other government bodies. Pressure is acute in the food regulation division, which is meant to inspect thousands of food-processing plants and must also decide how to regulate genetically modified food. There are bills in Congress to beef up the FDA's authority over food and even to create a separate food agency. Meanwhile, new demands are being made, such as to help fight bioterrorism.

If Dr McClellan wants to be radical, Dr Miller has a suggestion: end the FDA's monopoly on regulation by farming out the nitty-gritty of drug reviewing to approved third parties which would decide whether or not a product should be approved, subject to a final FDA review of such decisions within 90 days. Dr Miller believes this system, modelled on Europe's, would bring badly-needed competition, based on innovation and efficiency, to the review process. Will the new FDA commissioner prescribe such harsh medicine?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Italy's car industry

Fiat redux

Oct 10th 2002 | TURIN
From The Economist print edition

Fiat's agony spreads to workers as 8,100 jobs go

THE giant Mirafiori plant in Turin is the heart of Fiat Auto, the troubled car division of the Fiat group. As the early shift trooped home at 2pm on October 9th, the mood was pessimistic. The workers knew that the bosses were meeting union leaders later that afternoon in Rome to announce 8,100 job cuts across the group's car factories. This is on top of 3,000 job losses announced earlier this year. Workers expect one-third of Mirafiori's 12,000 employees to be gone by next July. Fiat says that all but 500 of the total are temporary lay-offs, to last about a year. But the morose workers passing through Mirafiori's gates doubt that the jobs will ever come back, whatever the firm says about new models and future investment.

Fiat Auto will lose around *euro*1 billion ($987m) this year, wiping out profits in other parts of the group, which makes everything from lorries and tractors to robots. Fiat's bosses have been in denial for years about the company's massive over-capacity, the cause of growing losses as sales slumped. Five years ago Fiat Auto made 2.6m cars a year and profits of *euro*758m. Since then it has recorded a loss in every year bar one. This year it will produce barely 1.9m cars. Its banks forced a restructuring in May, and the chief executive of its Fiat group parent had to resign a few weeks later.

The pain is bad enough in northern Italy, where unemployment is barely 4%, but it will be felt more elsewhere. The Termini Imerese plant in Sicily is to lay off 1,800 workers. Unions say that cuts among suppliers could double the number of people hit. The local official jobless rate is already 18% (though this ignores a lively “informal” economy). This is posing a nasty problem for the government of Silvio Berlusconi, which polled strongly in Sicily but is not inclined to aid troubled firms.

Fiat's belated willingness to take tough steps to align capacity with demand is down to the group's new boss, Gabriele Galateri, chosen in June to rescue the firm, which is 30% owned by Agnelli family interests. His aim is to restore credibility, arrest the alarming plunge in the company's share price and persuade the banks that he is sorting out the Fiat Auto mess, so as to win their support for a further recapitalisation.

Closely watching this Italian drama are bosses of General Motors, owners of 20% of Fiat Auto. The Italians have an option to sell the remaining shares to GM from January 2004. GM, which has its own problems in Europe, is desperate for Fiat Auto to sort itself out before it can be forced to take over. Although the Agnelli family patriarch, the ailing 81-year-old Gianni Agnelli, is opposed to such a sale, most analysts expect that Italy's proudest manufacturing company will end up in American hands.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Japanese business

Welcome to the 1990s

Oct 10th 2002 | TOKYO
From The Economist print edition

At last, Japan's electronics conglomerates discover focus

Get article background

JAPAN remains the land of the conglomerate. Its leading electronics firms are known, with good reason, as the “big five”. Unlike Europe and America, where most electronics firms have split the design and manufacturing sides of their businesses and narrowed their focus, Japan still trudges on with five vertically integrated electronics giants. They do everything from making the chips that go into electronic devices to designing, building and marketing the computers, mobile phones and other gadgets that use them. But recent (timid) developments in electronics suggest this industry is aware of its problems.

Mitsubishi Electric announced last week that it would stop making dynamic random access memory (DRAM) chips, a low-end bit of the semiconductor business. This week, Fujitsu said it would expand a deal with Siemens, a German electronics firm, to share more of the cost burden in its computer business. Fujitsu was also said to be in talks with AMD, an American semiconductor firm, in an effort to streamline its flash-memory business.

Mitsubishi's move is part of a phase of narrowing corporate focus that has been under way for a while. Despite a decent knowledge base, established brands and a captive domestic market for consumer electronics, the big five have failed to bear the pain of a global downturn in the market for chips. The cyclical downturn has ended any pretensions of closing the gap with low-end DRAM rivals in South Korea, Taiwan and elsewhere. Fujitsu and Toshiba have quit computer DRAMs altogether. Hitachi and NEC combined their DRAM units in a joint-venture, Elpida, in 1999—into which Mitsubishi has now merged its DRAM operations in the hope that a combined Japanese firm can succeed.

The big five must now sort out the rest of their corporate sprawl. A good place to start would be their other chip units, which make many types of medium- and high-end semiconductors. Given the huge research and other capital costs involved, why are all five firms pushing ahead in this business? “They're not global leaders in any of the things they do any more,” notes Graeme Knowd, an analyst at UBS Warburg in Tokyo. But, he says, if the big five can combine some of their remaining semiconductor teams, and focus on design while looking for ways to outsource production, the industry has a chance of emerging with two or three firms that excel in high-value-added, customised chips.

There is also a good case for combining some consumer-electronics businesses, which are falling behind global rivals and specialised Japanese competitors such as Sony and Panasonic. Fujitsu's mobile phones, for example, lag those of Japanese rivals; its personal computers are uninspiring; and it is not one of the country's leaders in semiconductors. Its best bet is to team up with other firms in some areas and concentrate instead on domestic software consulting, where it does fairly well.

The deal that Fujitsu announced with Siemens on October 8th to expand their existing partnership by sharing more of the cost of parts for some common computer models is small compared with the overhaul Fujitsu really needs. An agreement with AMD could help a lot more, if it allows Fujitsu to pass more of its chip business to a more promising foreign partner. It might even inspire the rest of the big five.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

China's private sector

Not in the club

Oct 10th 2002 | HAICHENG
From The Economist print edition

Being an entrepreneur in China has its own special problems

ZHOU FUREN, one of China's richest men, has big dreams for the Xiyang Group, a manufacturing conglomerate he owns and runs. The group is enjoying explosive growth. In 2003 he hopes to list part of it—two of the country's largest fertiliser makers—on the Hong Kong Stock Exchange. Yet despite his success and China's embrace of free-market economics, Mr Zhou complains that the playing-field is not level for private firms such as his.

Five years ago, Mr Zhou applied to list the fertiliser plants on the Shanghai stockmarket. But China still applied a quota system for listings, whereby the government of each province could recommend a limited number of firms for flotation. Mr Zhou is from the north-eastern rustbelt, home of many of China's dying state-owned firms, and the provincial government opted to approve these rather than the Xiyang Group, even though it employs 7,000 people, has declared assets of 2.5 billion yuan ($300m) and is one of the province's biggest taxpayers.

The quota system was scrapped in 2000, but so many state-owned enterprises are queuing up to list that the Xiyang Group would probably have to wait for years. So Mr Zhou decided to list overseas instead. First, he tried America's Nasdaq—only for Benchmark, an American adviser, to pull out, citing accounting and legal concerns. He then turned to the Hong Kong exchange. Accounting and legal concerns were either solved or mattered less in Hong Kong. Mr Zhou now expects to raise HK$800m ($100m).

“If it hadn't been for discrimination against the non-state economy in China, we would be listed at home and there would be no need to go to Hong Kong,” says Mr Zhou, who also complains about the difficulties faced by private enterprises in getting loans from state-owned banks. His frustration is understandable, given that he has done all that could reasonably be expected of a Chinese entrepreneur. He is the Communist Party secretary of Xiyang Village and an adviser to the provincial legislature. This year, he was one of only four private entrepreneurs out of nearly 1,000 recipients of the May First Labour Medal—usually awarded to model workers and managers in state-owned enterprises. He even eschews the epithet “capitalist” and says his fortune, estimated at $125m, “belongs to society”.

The government also influences his business decisions. The group's 900m yuan investment in the Guizhou fertiliser plant in 2000 “was prompted by the national campaign to develop west China”. To please officials in the city of Haicheng, close to Xiyang Village, Mr Zhou abandoned a plan to build a steel factory in the southern port of Beihai, where there would be ready access to ore shipped from Australia. Its new location in inland Haicheng will reduce annual profits on the investment by some 500m yuan. “We decided to forgo this,” he says.

Where would Mr Zhou be now without a helping hand from the state? Five years ago, Mr Zhou's business was still centred on his village. Then he discovered an ailing state-owned sulphuric-acid factory in the city of Jinzhou. The authorities agreed to lease it to him for less than $700,000 a year, with the government taking responsibility for the factory's debts and pension liabilities. Mr Zhou used the sulphuric acid to produce fertiliser, turning the enterprise into the biggest compound fertiliser manufacturer in the northeast. Now, wanna buy some shares?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Ranking business schools

The numbers game

Oct 10th 2002
From The Economist print edition

Business schools hate rankings. Understandably

THURSDAY October 10th was a bad evening for business-school deans and their staff. After *The Economist* had gone to press, *Business Week* unveiled its biennial rankings in an online countdown, prolonging the agony for 30 American and ten non-American elite schools. Those that rise in the ranks will gain more eager applicants. Schools that fall will face recriminations from alumni and trustees alike.

These are the most widely watched of all business-school rankings. But there are plenty more. For the past 14 years, the Economist Intelligence Unit (EIU), a sister company of *The Economist*, has published a guide to MBA courses around the world. On October 11th, for the first time, it added a single global ranking, giving top place to Kellogg, Northwestern University's business school, which also topped the first *Business Week* rankings in 1988. *U.S. News & World Report* first produced a survey 12 years ago, gleefully remembered by its rivals for including Princeton in the list. (Princeton has no business school.) The *Wall Street Journal* and the *Financial Times* (the latter owned by Pearson, part-owners of *The Economist*) each have their own rankings. Here is *The Economist*'s own, brand new, poll of these polls, including *Business Week*'s latest results (see table).

The business-school business

Rankings of MBA programmes, 2002

The Economist poll of polls	*Business Week**
1= Chicago	1 Kellogg (Northwestern)
1= Kellogg (Northwestern)	2 Chicago
3= Harvard	3 Harvard
3= Wharton (Pennsylvania)	4 Stanford
5 Tuck (Dartmouth)	5 Wharton (Pennsylvania)
6 Columbia	6 MIT Sloan
7 Stanford	7 Columbia
8 Yale	8 Michigan
9= Fuqua (Duke)	9 Fuqua (Duke)
9= Michigan	10 Tuck (Dartmouth)

EIU	*Financial Times*
1 Kellogg (Northwestern)	1 Wharton (Pennsylvania)
2 Tuck (Dartmouth)	2 Harvard
3 Fuqua (Duke)	3= Chicago
4 Chicago	3= Columbia
5 Stanford	3= Stanford
6 Columbia	6= INSEAD (France)
7 Anderson (UCLA)	6= MIT Sloan
8 IMD (Switzerland)	8 Stern (NYU)
9 Darden (Virginia)	9 London
10 Yale	10 Kellogg (Northwestern)

*U.S. News and World Report**	*Wall Street Journal*
1 Stanford	1 Tuck (Dartmouth)
2 Harvard	2 Michigan
3 Wharton (Pennsylvania)	3 Carnegie Mellon
4 MIT Sloan	4 Kellogg (Northwestern)
5 Kellogg (Northwestern)	5 Wharton (Pennsylvania)
6= Chicago	6 Chicago
6= Fuqua (Duke)	7 Texas - Austin (McCombs
8 Columbia	8 Yale
9 Tuck (Dartmouth)	9 Harvard
10= Darden (Virginia)	10 Columbia
10= Haas (Berkeley)	
10= Michigan	

*US only

To ensure variety, each set of rankings measures and weights different things. The EIU claims the greatest focus on the student market, ranking schools by how they respond to what students say they most want from an MBA course. The *Financial Times* gives much weight to the level and percentage increase in a student's salary after an MBA course. It also weights a school's academic research, which is hard on those with no doctoral programme. The *Wall Street Journal* concentrates exclusively on the views of corporate recruiters. Controversially, the schools choose which recruiters should be consulted. *Business Week* gives much weight to student opinions—even though few students have experienced more than one business school.

Unless they are on top, business schools grumble discreetly about these rankings. Paul Danos, dean of Dartmouth College's Tuck business school, bemoans the huge amount of staff time involved in replying to pollsters' questions. He oversees the whole process himself. As a few schools tend to be closely clustered at the top of the league, misinterpreting a question can easily cost crucial places on the ladder. But he concedes that rankings also encourage schools to innovate and to pay more attention to what students want.

Other academics grouse more noisily. Yale has a small business school. Ivo Welch, who teaches there, argues that ranking schools by the number of students gives roughly the same result as more elaborate

surveys: Harvard top, Wharton second, Kellogg third and so on. The reason, he says, is that most surveys give heavy weight to the views of corporate recruiters. Inevitably, a disproportionate number of recruiters are alumni from large schools. And generally, alumni tend to favour their *alma mater*.

“The very idea of reducing learning to a single number is suspect,” says Henry Mintzberg of McGill University in Canada. “The rankings don't look at whether students are better managers as a result of their course.” Some schools distort what they do to raise their score. Yet rankings also make them attend more to their users. When John Byrne devised *Business Week*'s ratings, “no one thought they had customers that they had to be responsible to.” Ranking other academic courses might make universities more aware that students and future employers are a market to compete for, not to ignore.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Medical confectionery

Business bubbles

Oct 10th 2002
From The Economist print edition

The chewing-gum business is becoming high-tech and health-conscious

GUM chewing is not considered a sophisticated pursuit. Munching on mastic-tree sap was one of the less admirable habits of the ancient Greeks. America's settlers found paraffin wax tasty. The sight of people masticating open-mouthed on today's synthetic latex gum, together with sticky encounters under seats, explains why such enlightened places as Singapore banned the anti-social stuff.

Yet chewing gum has, quietly, come of age. No longer just for kids to blow bubbles with, it is becoming a health aid for adults: to fight cavities, deliver vaccines, cure ear infections and soothe an ulcer. And the evolution of chewing gum from a sticky-sweet vice into a “nutraceutical”—the fashionable term for foods with medicinal properties—is driving sales. The $12 billion gum market is growing by 3% a year, a decent rate for food; but within that total, sales of sugarless gum are rising by 15% a year. Sugar-free brands of Wm Wrigley, the world's biggest gum maker, are rising by 34% a year.

The growth potential for gum and the profits in medicated sweets are tempting the world's big food groups. Helpfully, Pfizer, an American drug giant, is shedding its non-core businesses, including Adams, the world's number two in gum and a leader in medicated sweets. With a mooted price of $4 billion, twice its revenues, Adams is the biggest prize in today's food industry, now that irate locals have blocked the sale of Hershey Foods. Several global firms, including Wrigley, Nestlé and Cadbury Schweppes, all bidders for Hershey, plus Mars and Hershey itself, are all expected to submit initial bids, due by mid-October, say bankers. Kraft Foods may join in, unless it prefers a bigger fish, Danone, a French dairy giant.

That gum eases tension and helps concentration has been known for years, not least by America's military, which first gave soldiers gum during the first world war. Chewing helps ease blocked ears and lessens an urge to smoke or snack. But the opportunity generating most excitement now is the use of gum as a cheap, effective delivery mechanism for medicine. Gary Kehoe, Wrigley's director of new product innovation, says gum outdoes pills at getting certain molecules into the bloodstream because of its prolonged contact with the mouth. Gum is insoluble and is chewed for 20 minutes on average. Alkaline saliva and the lack of stomach acid also give drugs a fighting chance. Wrapping an active molecule in a resin that dissolves slowly allows controlled release.

Nicotine anti-smoking gum is one example. But gum can also carry drugs, vitamins, minerals or anti-oxidants; and it can be more pleasant to take than pills or injections. For the food firms, gum that sweetens bad breath and whitens teeth is a hot market. The success of Aquafresh gum and Listerine mouthwash strips is inspiring innovative additions to gum, such as the milk-derived Recaldent and bleaches in Adams' Trident White brand.

Gum can also carry drugs, vitamins, minerals or anti-oxidants; and it can be more pleasant to take than pills or injections

The magic ingredient in modern sugarless gums is Xylitol, a sweetener made by a Danish firm from silver-birch pulp. A study in the *Journal of Medicine* found that Xylitol cuts tooth decay by 70% by inhibiting growth of oral bacteria. The sweetener is central to a battle in Asia to find the next cure-all gum. Lotte last month launched Xylitol Helco gum in South Korea to fight the bacteria causing stomach ulcers. By inhibiting oral bacteria, Xylitol may cut cancer risk. Finnish scientists found that children chewing Xylitol and Sorbitol gum suffered 40% fewer ear infections than non-chewers. Xylitol's reputation is driving Korean gum sales higher by 25% a year.

Wrigley's Mr Kehoe says the next target for gum is gingivitis and gum disease. Scientists at Guy's Hospital and King's College in London are testing an anti-tooth-cavity vaccine derived from tobacco

plants that could be put into gum. Mitsui Norin in Japan has taken out a patent to use gum to deliver an influenza vaccine.

There are sceptics. Unlike Asian consumers, Americans still see gum mainly as a breath freshener. Wrigley's new antacid gum, Surpass, launched in January, showed that gum coated with calcium carbonate relieves heartburn faster and for longer than tablets (helped by the alkalinity in saliva), but sales are poor. Wrigley fears that food firms may not profit much from pharmaceutical gums, as drug suppliers may gain most of the value and drug approval costs are so high.

Yet excitement about the once humble stick of chewy stuff has fuelled intense interest in Adams. Not only does it control 19% of the world market and a quarter of the American one, but 12 of its 14 gum and sweet brands claim health benefits. Adams is the undisputed leader in medicated sweets, an even faster-growing category, where its Halls and Clorets cough drops have one-third of a highly profitable $3.4 billion market.

Of the mooted bidders, Wrigley is keenest on Halls, to cut its reliance on gum. With 56% of the American gum market, Wrigley would hit antitrust problems. But that might not deter Bill Wrigley, the fourth generation of the family at the helm, who, after his unexpectedly ambitious move for Hershey, is now hooked on diversifying.

For Cadbury, Adams would be its biggest-ever acquisition, adding 50% to its confectionery business. The British group is already the third-biggest global gum seller, thanks to small acquisitions in Europe and China. It has the financial clout to do the deal. In public, Nestlé's boss, Peter Brabeck, is dismissive of gum and sweets, where the Swiss are under-represented. Privately, he is said to want Adams, which he could buy out of petty cash, to build Nestlé's “functional foods” business, which he personally oversees. Kraft's intentions are far less certain, after it sold its French gum business to Cadbury in 2000. One thing is at least clear: Pfizer will have plenty of options to chew over once the bidding starts.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Face value

Free Mickey Mouse

Oct 10th 2002
From The Economist print edition

Lawrence Lessig wants less copyright protection, including for Disney's famous rodent

LAW professors rarely boast an army of “fans”, but Lawrence Lessig is no run-of-the-mill academic. Now at Stanford University, formerly at Harvard, Mr Lessig has become a rock star of the information age, mixing scholarly inquiry with barnstorming activism on many issues. A Ralph Nader of the Internet, he fights against the mighty corporations that want to squeeze the vitality out of the web, trampling consumers in the name of Mammon. Were his target a cigarette company, say, Hollywood would already be making “Lessig, the movie”. Instead, it has branded him a cultural anarchist bent on justifying the rampant theft of others' property in the name of “openness”—ie, a direct threat to its bottom line. This week, Mr Lessig landed another blow, arguing his case before America's Supreme Court.

The war over control of the digital copying of music and movies has many fronts, in Congress and the marketplace as well as the courts. It has pitted Hollywood against the technology firms of Silicon Valley and consumer advocates such as Mr Lessig. The record industry succeeded in killing Napster this year, but file-sharing by consumers is growing; online swapping of films and TV shows, as well as music, is now catching on. America's frightened media behemoths are lobbying hard for new laws and new technology to stop copying and to control what customers do with their products. Unlike some cyberlawyers, Mr Lessig is not against Hollywood, or anybody else, making a decent profit. But he rightly fears the hijacking of technology policy by lobbyists—and the threat to the Internet of inept, heavy-handed regulation.

Facing Hollywood's battery of high-paid lawyers and lobbyists, Mr Lessig may seem hopelessly outgunned. But the case before the Supreme Court this week shows what determined public-interest lawyers such as Mr Lessig can achieve, even against heavy odds. And Mr Lessig has most consumers on his side, something that the entertainment industry, sooner or later, will have to reckon with.

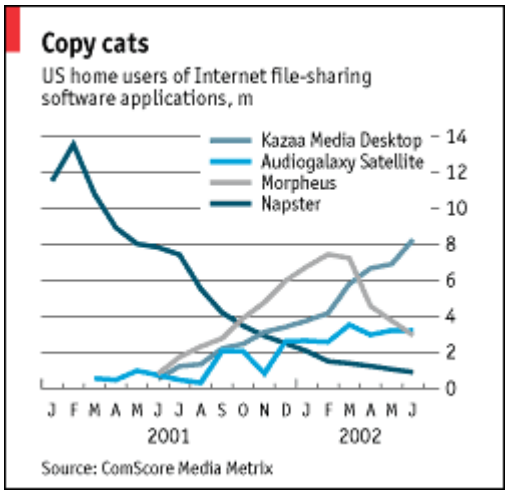
This week's case, Eldred v Ashcroft, though not itself decisive, is a notable battle in the bigger war. It concerns a 1998 law that was once so uncontroversial that it passed the Senate unanimously, without debate or much public discussion. Known as the Sonny Bono Copyright Term Extension Act, after the late congressman and singer who, his widow claimed, believed that copyright, if not love, “should be forever”, it extended copyright from 50 to 70 years after an author's death and, for works produced “for hire” and owned by firms, from 75 to 95 years after publication.

If you wish upon a star

Others may have missed this obscure measure, but Mr Lessig was outraged. Here was a prime example of the manipulation of Congress by powerful corporate interests. Disney, with other media giants, had lobbied hard for the law, which happily stopped early images of Mickey Mouse, its mascot, entering the public domain. Without the law, Mickey's copyrights would have begun expiring in 2003 (though Disney could still have used trademark law to control Mickey merchandising). The copyright extension also covered roughly 400,000 books, movies and songs, including early works by Robert Frost, Ernest Hemingway and George Gershwin. Mr Lessig found a lead plaintiff, Eric Eldred, a retired computing executive who publishes out-of-copyright works on the Internet, and went to court.

Mr Lessig argues that Congress's latest extension of copyright is unconstitutional, because it ignores the balance between the interests of copyright holders and those of the public. The constitution grants Congress the power to grant copyrights and patents only for “limited times” in order to “promote the progress of science and the useful arts.” How, he asks, can the retrospective extension of the rights of dead authors be an incentive to present-day creativity? He has a point. Hemingway and Gershwin will not wax lyrical again, alas, no matter what rewards are dangled in front of their heirs. And, he claims, Congress's 11 extensions of copyright in the past 40 years amounts to a “perpetual term on the instalment plan”, not the limited time authorised by the constitution.

Most experts believe that Mr Lessig will lose his case, as he has already done in two lower courts. After all, in passing the law Congress did nothing new: in 1790, the first-ever copyright act also covered existing works. The latest extension is still for a “limited” time, as the constitution requires, whatever critics may guess about the future behaviour of legislators. And Congress was not simply helping Hollywood when it passed the 1998 law. It had a public purpose in harmonising American law with a new European Union directive, thus boosting international trade in creative works.



Nevertheless, legal experts were surprised that the Supreme Court even agreed to hear the case. It is impossible to predict with absolute confidence what ruling the court's justices will deliver next spring. Even if Mr Lessig loses the case on narrow legal grounds, the publicity will be invaluable to his cause. And the public-policy issues he raises will grow more, not less, acute as technology makes the copying, manipulation and distribution of digital content via an expanding Internet ever easier.

Mr Lessig is surely correct that creativity in a media-obsessed culture relies on easy access to existing creative works. Disney itself, he points out, has thrived in large part by exploiting stories already in the public domain, such as “Snow White” and “Cinderella”. On the other hand, America's mighty entertainment industry faces a genuine dilemma: how to use the digital revolution to make loads of money when new technology can turn customers into its biggest enemy. Mr Lessig and his fans want to ensure that, far from embracing the revolution, Hollywood and its allies do not simply strangle it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Correction

Oct 10th 2002
From The Economist print edition

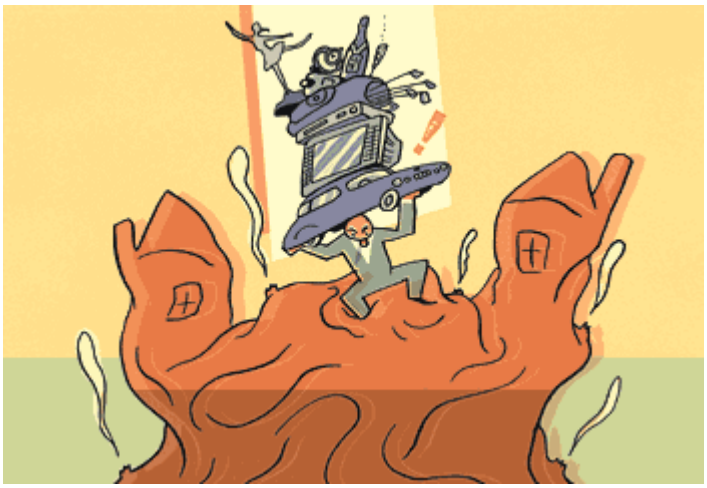
In our article on headhunting last week, we said that Ray & Berndtson went bust and had been taken over by A.T. Kearney. In fact, only the firm's American business has gone into Chapter 11. The rest of the global group is unaffected.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The deflation danger

Of debt, deflation and denial

Oct 10th 2002
From The Economist print edition



The risk of falling prices is greater than at any time since the 1930s

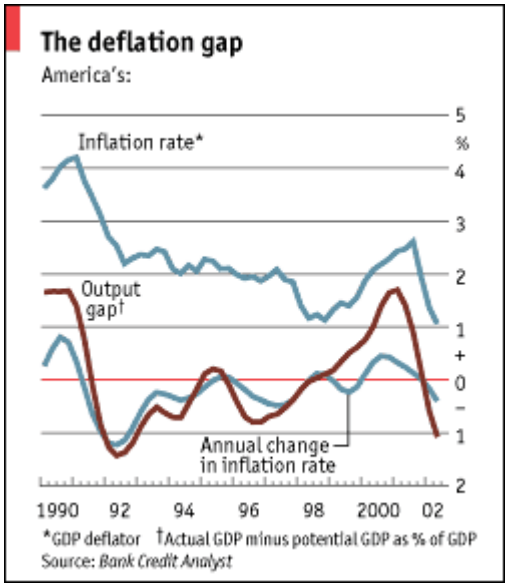
FOR decades inflation was the bogeyman in rich countries. But now some economists reckon that deflation, or falling prices, may be a more serious threat—in America and Europe as well as Japan. That would be decidedly awkward, given the surge in borrowing by firms and households in recent years. Particularly worrying is the rise in borrowing by American households to finance purchases of houses, cars or luxury goods. Deflation would swell the real burden of these debts, forcing consumers to cut their spending.

Policymakers in America and Europe have been quick to dismiss any fears of possible deflation. Bond markets, on the other hand, reckon that the risk is mounting: bond yields have fallen to historical lows. Many products, from clothes to cars, are certainly cheaper than they were a year ago. But full-blown deflation requires a persistent fall in the overall price level. The recent fall in the prices of durable goods has been offset by rising prices of services; so outside Japan, average prices continue to rise, albeit at the slowest pace for decades. As measured by the GDP deflator, the best economy-wide gauge, America's inflation rate has fallen to 1.1%, its lowest for 40 years. Its consumer-price index has risen by 1.8% over the past 12 months, but prices have fallen in half of its 16 main product categories—the biggest proportion since the current series started.

The world is still awash with excess capacity, in industries from telecoms and cars to airlines and banking. Until this is eliminated, downward pressure on inflation will persist. A good measure is the output gap, the level of actual minus potential GDP. Historically there has been a close relationship in most countries between the size of the output gap and changes in the inflation rate (see chart). When the output gap is negative (ie, actual output is below potential), inflation usually declines. The OECD estimates that America's GDP is about 1% below its potential. If growth remains at or below its trend rate of around 3% over the next two years, the negative output gap will persist into 2004, pushing inflation even lower. It would not take much to tip into deflation.

Optimists argue that deflation is much less likely today than in the 1930s because services now account for a bigger slice of the economy. The prices of services tend to be more resistant to dropping than the prices of goods because they are more labour-intensive, and wages rarely fall. However, Stephen Roach, an economist at Morgan Stanley, observes that service-sector inflation is now much weaker than usual. The rate of increase in

the services component of America's GDP deflator fell from 3% in the year to the fourth quarter of 2000 to 2.2% in the second quarter of this year. In the previous six recessions, service-sector inflation actually increased over the comparable period.



Although Mr Roach reckons that deflation is a serious risk, economists at Salomon Smith Barney argue that fears of it are vastly overdone. Incompetent monetary policies were largely to blame for deflation in America in the 1930s and in Japan today. Outside Japan, they argue, no central bank would tolerate a persistent decline in prices. A recent paper by economists at the Federal Reserve draws lessons from Japan's deflation and concludes that, when inflation is unusually low, central banks must be especially alert to the risk of deflation and cut rates by more than is normally justified by inflation and growth rates.

The Fed is at least aware of the risks. However, not all central banks may be either willing or able to learn from Japan's mistakes. Germany probably faces a higher risk of deflation than America. The ECB's interest rate of 3.25% is broadly appropriate for the euro area as a whole, given its inflation rate (2.2%), the size of the output gap, and the bank's chosen inflation target of “less than 2%”. But the ECB seems unlikely to cut interest rates until inflation dips below 2%. And its inflation target is arguably too low. Research by the IMF and the Fed suggests that, if central banks aim for inflation below 2%, the risk of deflation rises markedly. If the ECB had an inflation target with a mid-point (rather than a ceiling) of 2%, it could now trim interest rates.

Even then, however, rates would still be too high for Germany. Since it is the highest-cost producer within the euro area, a fixed exchange rate tends to cause price convergence by forcing inflation to be lower in Germany than in the rest of the euro area. Germany's core rate of inflation (excluding food and energy) has averaged 0.6 percentage points below the euro-area average over the past three years; it is now a full point lower, at 1.1%.

Since interest rates are the same across the whole of the euro area, this implies that real rates will be higher in Germany and growth consequently slower. Germany's output gap, at an estimated 2.5% of GDP, is the second biggest after Japan among the G7 countries, and it is likely to widen. Deutsche Bank recently cut its growth forecast for Germany to only 0.1% for this year and 0.6% in 2003.

Back-of-the-envelope calculations suggest that, if the old Bundesbank were setting interest rates to suit Germany alone, they would now be below 2%. Worse still, not only is Germany unable to cut interest rates, but the EU's stability and growth pact also obstructs any fiscal easing. Nor can it devalue its currency. Stripped of all its macroeconomic policy weapons, Germany now runs a serious risk of following Japan into deflation.

Friend or foe?

Deflation is not necessarily bad. If falling prices are caused by faster productivity growth, as happened in the late 19th century, then it can go hand in hand with robust growth. On the other hand, if deflation reflects a slump in demand and excess capacity, it can be dangerous, as it was in the 1930s, triggering a downward spiral of demand and prices.

Today, both the good and bad sorts of deflation are at work. Some prices are falling because of productivity gains, thanks to information technology. But the weakness of profits suggests that most deflation is now bad, not good. Deflation is particularly harmful when an economy is awash with debt. Total private-sector debt is now much higher than when deflation was last experienced in the 1930s. Falling prices not only increase the real burden of debt, they also make it impossible for a central bank to deliver negative real interest rates, because nominal rates cannot go below zero.

If deflation causes real debts to swell, debtors may have to cut spending and sell assets to meet their payments. This can unleash a vicious spiral of falling incomes, asset prices and rising real debt. Irving Fisher, an American economist, described this process in a famous article in 1933 entitled “The Debt-Deflation Theory of Great Depressions”. He described how attempts by individuals to reduce their debt burden by cutting costs could paradoxically cause their debt burden to swell. Unable to increase prices to

boost profits, firms have to cut costs, either by reducing labour costs and hence household income or by buying less from other firms. This is sensible for an individual firm, but it reduces demand in the economy, thwarting the desired improvement in profit, leading to another round of cuts and putting further downward pressure on prices.

America's corporate sector is already suffering deflation, with the price deflator of non-financial businesses falling in the past year for the first time since the second world war. Many firms that borrowed heavily in the late 1990s, expecting rapid revenue growth to finance their debts, are now in trouble. Ed McKelvey, an economist at Goldman Sachs, worries that corporate-sector deflation could create wider deflation if firms try to slash labour costs.

When Japan was the only country with deflation, one sure cure might have been a big devaluation of the yen to push up inflation. But for the world as a whole, this is not an option. Global deflation could be even harder to budge.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Wall Street governance

Regulate thyself

Oct 10th 2002 | NEW YORK
From The Economist print edition

The New York Stock Exchange board brushes up on securities law

IDEALLY, said William Douglas, who was head of the Securities and Exchange Commission (SEC) back in 1937, securities exchanges would be “so imbued with the public interest” that they could be responsible for regulation and enforcement. “At the present time, however,” he went on, “I have doubts.” Were he alive today, it is unlikely that he would have put his doubts to rest.

Along with its sizeable business trading shares, the New York Stock Exchange (NYSE) is a “self-regulatory organisation”. That, according to the SEC, puts it in the “front line” for creating and enforcing rules covering its members, meaning the 1,366 people with seats working at 365 firms, as well as, indirectly, the 2,800 listed companies that are required to conform to the NYSE's standards. But given the surge of outside investigations into such companies, and considering the people who serve on the NYSE's board of directors, it takes no great leap to conclude that the front line is starting to look a bit frayed.

Last October, Linda Wachner resigned from the NYSE board soon after Warnaco, her lingerie company, went bankrupt, having repeatedly restated its accounts. Her replacement on the NYSE board was Martha Stewart, who resigned earlier this month during an investigation into whether she had used illicit inside information when she sold ImClone shares last December. Departing from the NYSE's board at the same time was Michael Carpenter, who had been replaced as the head of Citigroup's Salomon Smith Barney arm by a lawyer, Charles Prince, in response to investigations by federal and state prosecutors into the firm's allocation of initial public offerings.

Still on the NYSE's board are Jean-Marie Messier, ex-chief executive of Vivendi, and Gerald Levin, the former boss of AOL Time Warner. Both left companies whose accounts are being questioned by regulators. The NYSE also has on its board the heads of big investment banks, including Henry Paulson of Goldman Sachs, John Mack of CSFB, David Komansky of Merrill Lynch and William Harrison of J.P. Morgan Chase. All of these firms face legal and regulatory investigations.

The NYSE could make a case that finding executives from a Wall Street firm that is not under investigation at the present time would be almost impossible. Yet that hardly speaks well of the industry's “front line” of self-regulation. The NYSE is supposed to conduct annual examinations of members that encompass taped phone conversations and mail (including e-mail) to brokers. That should have alerted the NYSE to the mischief of the late 1990s, but all-too-often did not. More aggressive policing years ago might have pre-empted the dramatic and painful proposals for restructuring Wall Street, such as the break-up of firms, that are now being considered.

Richard Grasso, the NYSE's chief executive, is getting his own costly education in securities law. In July he resigned from the board of Computer Associates, which had become embroiled in investigations for dubious accounting and mismanagement of stock options. The reason for his resignation: term limits, not dismay. He recently joined the board of Home Depot, now under attack from corporate-governance activists for awarding a staggeringly generous contract to Robert Nardelli when he was brought in as chief executive the year before last. At least in that case the amount was disclosed, whereas the NYSE omits to say how much it pays its board. Some interests may be served by all this, but perhaps not the public's.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Securities and Exchange Commission

Pitt's nightmare

Oct 10th 2002
From The Economist print edition

A fight over the accounting regulator hurts Harvey Pitt, the SEC's chairman

AP

Get article background

Into the bear-pit

IF AMERICA'S stockmarket is ever to rise again, investors must believe that companies are stating their numbers honestly. That means the big four firms that vouch for the accounts of almost all big companies must audit properly. The Sarbanes-Oxley act was supposed to excise rot in the accounting profession. Now its most important element, the setting-up of a "public company accounting oversight board" to regulate and discipline auditors, is under threat. The accounting industry is trying to pull its teeth by staffing it with allies.

Until recently, Harvey Pitt, chairman of the Securities and Exchange Commission (SEC), had backed John Biggs, the head of TIAA-CREF, the teachers' pension fund, to be chairman of the new oversight board. After Paul Volcker, a former Federal Reserve chairman, turned down the job in early September, Mr Pitt went to New York with Harvey Goldschmid, another SEC commissioner, and his chief accountant, Bob Herdman, to talk to Mr Biggs. Over lunch, the SEC officials assured him of their support and told him to speed the process of leaving his job at TIAA-CREF in order to meet the act's October 28th deadline for the formation of the board. In the following weeks Mr Biggs met the SEC's other three commissioners, who also favoured him for the job.

But last week, in a bewildering about-face, Mr Pitt withdrew his backing for Mr Biggs, saying that he had never offered him the job. The problem is that Mr Biggs actually wants to change the accounting industry—as he showed in his testimony before the Senate Banking Committee earlier this year. He said that he favours rotating audit firms every five to seven years, for instance, to stop auditors cosying up to their clients. Asked over lunch with the SEC in September if he thought that the new oversight board should set new rules on audit quality, or whether the accounting industry should continue to write audit standards itself, he said that the board should do it.

If Mr Biggs fails to get the job, the accounting industry will have scored an unwelcome victory. The Sarbanes-Oxley act did much to restore confidence in public markets, but it left the vital job of cleaning up auditing largely to the oversight board. It will be up to the new board to decide whether to bring in new bans against the provision of non-audit services. Its five members will decide how forcefully to go in when the board starts annual inspections of the big four accounting firms. On disciplining auditors, another duty of the new board, a chairman friendly to the industry might ensure that nothing much changes. Paul Sarbanes, the senator mainly responsible for the eponymous act, says he will judge Mr Pitt's credibility largely by his choices for the board.

The SEC now has only two weeks left to make those choices. It could still appoint Mr Biggs, who is strongly backed by at least two commissioners. It may find it hard to persuade anybody who believes in reform to join unless Mr Biggs or somebody equally committed to investors' interests gets the top job. Several people approached for seats on the board have said that they would be uncomfortable joining without Mr Biggs. Some reported candidates for the chairmanship, on the other hand, could be disastrous. The mere mention of Donald Kirk, a former chairman of the Financial Accounting Standards Board, America's accounting standard-setter, prompted two fellow members of the old Public Oversight Board, which disbanded itself in May, to denounce him as over-loyal to the accounting profession.

For Mr Pitt, the selection of the new oversight board has turned into a nightmare. He is already under attack for his former relations, as a lawyer, with accounting firms and investment banks, and most recently for meetings with heads of firms that the SEC is investigating. This week, Tom Daschle, the Democratic Senate majority leader, and Richard Gephardt, the Democratic House minority leader, called for Mr Pitt to be sacked.

To salvage his credibility, Mr Pitt must appoint a board that is seen as resistant to lobbying by accountants. Otherwise, the SEC may lose any remaining chance of heading off the more heavy-handed regulation proposed by others, such as the state attorneys-general who are planning their own structural reforms of Wall Street. Any such radical change would surely be better led not by politicians or prosecutors, but by a credible and independent SEC.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Japan's economy

Still messy

Oct 10th 2002 | TOKYO
From The Economist print edition

Can a convincing reform agreement emerge after the recent turmoil?

Get article background

SINCE September 30th, when he added control over bank reform to his duties as economics minister, Heizo Takenaka has spoken clearly about the root of Japan's economic mess. He has promised to produce quickly his plans to restructure bad loans, repair banks' balance sheets and inject some sense into the way the banks are run. In case any of this was obscure he commented in a magazine interview that no bank in Japan is “too big to fail”. Sadly, that left confusion about other economic policies that might accompany a bank clean-up. What is going on?

Cleaning up bad loans risks dealing a hammer-blow to an economy that is already dormant and deflating. New figures show that machinery orders fell by a seasonally adjusted 13.6% in August, to a 15-year low. That is another sign that investment is sagging, and that the economy may be heading for another contraction. Such weakness makes it more crucial that any clean-up is backed by other economic policies—monetary, fiscal and structural—to keep confidence, consumption and capital spending from collapsing.

Although there is no lack of ideas for economic reform, there is a dearth of plans to overcome vested interests. Even as Mr Takenaka and his prime minister, Junichiro Koizumi, consider policies to coincide with bank reform, politicians in the ruling Liberal Democratic Party (LDP) want spending and tax breaks without reform.

As parliament prepares for the start of its next session on October 18th, politicians are clamouring for another “supplemental budget”, an annual ritual, to tide the economy over in the second half of the fiscal year, which ends in March. Mr Koizumi has equivocated as usual. The two worries are the public debt (140% of GDP) and his pledge to limit fresh borrowing to ¥30 trillion ($250 billion) a year.

The prime minister and his new “tsar” must find a way to spend money that benefits the whole economy, not just the public-works lobby. That will help to offset the lay-offs and bankruptcies that are likely if the government gets tougher on bad loans. Since there will be stiff political resistance to a bank clean-up no matter what, Mr Koizumi and Mr Takenaka must make certain they win on this point before doling out any public-spending goodies.

Then there is the central bank. Mr Takenaka hinted that he and his team needed to co-ordinate with the Bank of Japan, since rising prices would be more helpful than falling ones. But the central bank balked, and Mr Takenaka backed off. The Bank of Japan may—independently, of course—come to its senses and open the monetary floodgates. But don't bet on it: through Japan's long recession, the central bank has clung to its stingy ways as tightly as the LDP has to public-works spending. As an economic, not a political, tsar, Mr Takenaka will have to be a lot shrewder than he has been so far.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Japan's stockmarket

Embattled

Oct 10th 2002 | TOKYO
From The Economist print edition

Reform-like noises scare investors more than the devil they knew

BE CAREFUL what you wish for. Earlier this year, investors, fed up with Japan's inability to come up with a plan to reform its rotten banks, drove stockmarkets down. Now the repeated promises of Heizo Takenaka, the new economic supremo, to clean up the banks' bad loans have thoroughly rattled them. And the government's unco-ordinated response has left investors unsure whether there would be other measures to ease the pain.

The benchmark Nikkei 225 slid by 10% in Mr Takenaka's first week, hitting fresh 19-year lows. The index, says Peter Tasker of Arcus Investment, has now fallen below its 50-year moving average, which means that an investor buying every stock in the Nikkei every year since 1952 has made no capital gains. Topix, a broader index, has done little better. On October 10th it plunged to 836, its lowest level in 18 years.

Banks suffered most. Analysts reckon that, if stockmarkets fall much further, the big banks' capital-adequacy ratios could go below the 8% level that international rules require. By mid-week the bank index had fallen by 17%. Mizuho, the biggest bank, lost almost 40% or ¥1.2 trillion ($9.7 billion) of its market capitalisation.

Big companies that rely on bank support are also suffering. Daiei, a troubled supermarket chain, saw its share price fall by half—despite assurances from the minister of economics, trade and industry that the retailer was fine. Some equity is becoming almost worthless: the shares of Kumagai Gumi, a construction company, dropped to ¥14 ($0.11), far below a par value of ¥50. Fears of spiralling deflation, and a gloomy world economic outlook, have dragged down high-tech shares—Hitachi and NEC among others hit fresh lows.

Even so, Japan's battered investors may find that they have less to fear in the short term than they thought. For Mr Takenaka is already appeasing old-guard politicians who are against reform, for instance by postponing the curtailing of bank deposit insurance by two years. Will he be any bolder elsewhere?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Mexican banks

Won't lend

Oct 10th 2002 | MEXICO CITY
From The Economist print edition

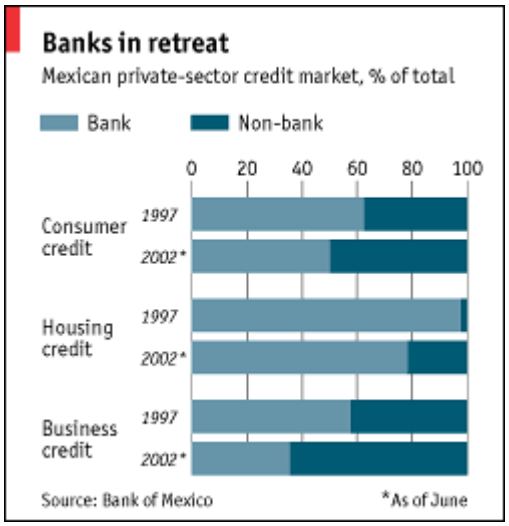
The local banks' new foreign owners are just as stingy with credit

IN THE past two years, 85% of Mexico's banks have been snapped up by foreign buyers. The latest example: Britain's HSBC, which is buying Grupo Financiera Bital for $1.14 billion. The sell-out is surprising in a country traditionally suspicious of foreign owners. But the state of the banks was so bad that foreign sales were the only cure. Now, disillusion is setting in. The banks under their new owners seem reluctant to go about their core business: lending money. There is no excuse for such timidity, say locals. What is more, lack of credit is damaging the economy.

History does not inspire confidence. Mexico's banks were nationalised in 1982, and privatised in 1991-92. The North American Free-Trade Agreement (NAFTA), which took effect in 1994, triggered irrational exuberance: banks lent irresponsibly and sometimes fraudulently. The banking system crashed in 1995 after the collapse of the peso, and the government spent about $150 billion bailing it out.

Within five years, however, the economy was booming and the banks looked attractive to foreign buyers. Spanish banks started the rush in 2000: BBVA bought Bancomer, and BSCH bought Banco Serfin. Then Canada's Scotiabank took over Inverlat; and, in the biggest deal of all, America's Citigroup paid $12.5 billion for Banacci. The HSBC deal leaves only one big Mexican bank in national hands, Banorte, and that is expected to go soon.

The 1994-95 crisis left the banks extremely risk-averse. As the economy grew on the back of NAFTA, non-banks took up much of the credit slack; they now account for 58% of total credit in the country, up from 35% in 1997 (see chart). Retail stores such as Elektra and Sears offer their own credit, as do the car manufacturers. Instead of taking risks lending money, banks played safe by raising their commissions and buying government bonds.



Foreign owners have not restored the banks' role. Small and medium-sized businesses, to which the government of President Vicente Fox has given high priority, remain desperately short of funding. Even if entrepreneurs can get a small loan, they pay interest roughly 20 percentage points higher than the 8% underlying rate. To secure a mortgage, individuals must put down a huge deposit.

To be fair, the foreign-owned banks have brought new discipline and liquidity. All the banks are expected to meet regulatory capital requirements by the end of 2003. But at some cost: outstanding bank loans to the private sector are 6% lower than in 2000, according to the central bank. Some smaller banks have been expanding their consumer credit through credit cards, but at Banacci, for instance, the Citigroup takeover led to a 22% fall in loans. A business poll by the Bank of Mexico shows that three-quarters of the sample did not use bank loans in the first quarter of this year, with most blaming the banks' unwillingness to lend.

The banks under foreign control have been concentrating on “efficiency”, cutting 8,000 jobs in 2001. They are also focusing on cross-selling, trying to sell more products to existing customers. Their niggardly lending, they say, is due to problems seizing collateral from borrowers who don't pay. The law on this is complex and slow: a recent report on mortgage repossessions by Moody's, a rating agency, showed that in one state, the Yucatan, it took an average of 26 months to get a repossession order from

a court, and another 14 to enforce it. A bill now going through Congress may improve things. Mexico also needs a more aggressive regulator “to stop cartel-type pricing on commissions,” says Damian Fraser, of UBS Warburg.

A deeper problem is that foreign banks still see Mexico as a typical Latin American economy. Throughout the region, foreign banks have been reluctant to take on credit risk. In Venezuela, President Chavez passed a law in November 2001 forcing banks to provide cheap loans to farmers and small businessmen. It may not come to that in Mexico. But Mexican businessmen and consumers are still waiting for the banks to do their job.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Commerzbank

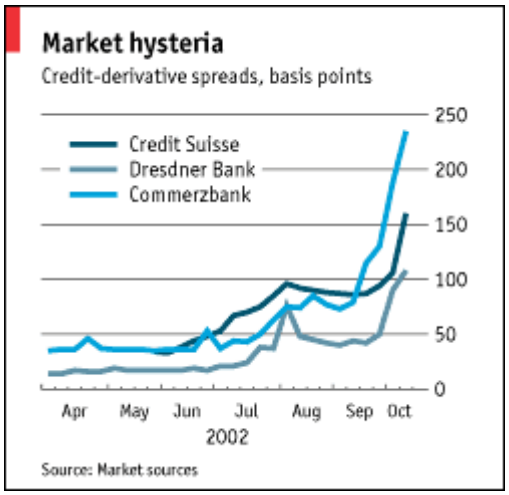
Panic game

Oct 10th 2002
From The Economist print edition

Credit and equity traders pull the rug on one bank's business strategy

CREDIT-DERIVATIVE prices, which are fast becoming a leading indicator of market sentiment, can sometimes overshoot. They may have done so this week in the case of Commerzbank, a once-big German universal bank, whose share price came under attack on rumours that the bank had undisclosed trading losses. The share price fell by 23% in four days, before recovering a little on October 9th.

It was great sport. Newspapers, hedge funds and credit-derivative traders all enjoyed the wild ride, as Commerzbank, and its regulator, protested that there was no “black hole”. But market bears voted otherwise. Since the last week of September the apparent risk of a Commerzbank default, on the basis of derivative prices, has nearly trebled (see chart). That was despite Commerzbank's protests that its non-performing loans are less than 0.5% of its total book, and that it has enough reserves to cover them five times over. Surely some mistake.



Yes and no. What is under attack, in a crude and cruel way, is Commerzbank's business model, which looks less convincing by the hour. Standard & Poor's (S&P), a rating agency, downgraded the bank's long-term debt on October 8th from A to A- (with a negative outlook). That still means, in S&P jargon, that the bank has a “strong capacity to service its obligations”. But S&P's downgrade reflects worries that the worsening economic climate in Germany gives Commerzbank fewer chances to rebuild its profits. Its return on equity in the first half of the year was a measly 1.3%. Besides the loan book, there are three areas of concern: asset management (Commerzbank has been trying unsuccessfully to sell its underperforming subsidiary, Jupiter); its half-formed investment bank; and its burdensome domestic retail business. Vicious cost-cutting does not change a business strategy.

The investment bank, with its emphasis on equity business, is a costly, loss-making mistake and needs to change emphasis or vanish. It is tiny compared with those of its German rivals, Deutsche and Dresdner. Retail and small-business banking in Germany is doomed to unprofitability until at least 2005, when the German savings banks, with roughly 50% of the market, lose their advantage from state guarantees. Only then might Commerzbank's business mix begin to make sense—if it survives that long as an independent bank.

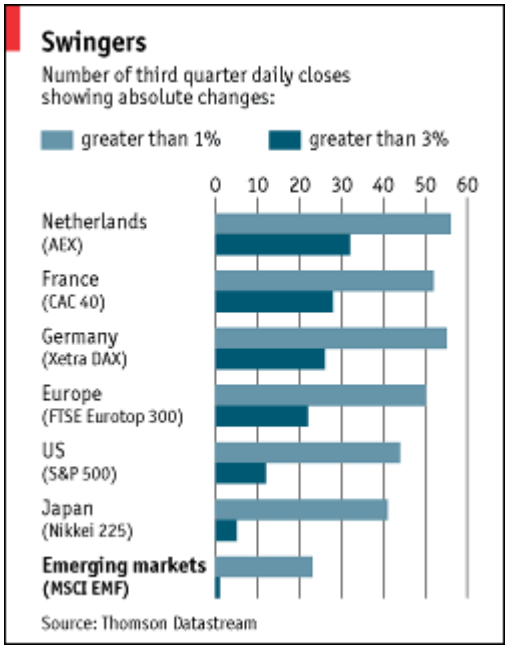
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarket volatility

Revving up

Oct 10th 2002
From The Economist print edition

Uncertainty means price volatility, and it's breaking new records in Europe



WITH the world's stockmarkets taking their biggest plunge in 12 years over the past quarter, which trader's nerves are not in tatters? Like tempers, markets around the world have become increasingly volatile over the past three months, with each round of bad news.

Price gyrations in American shares have surged back to record levels, after receding somewhat from a record high in the scandal-ridden month of July. The widely-followed Chicago Board Options Exchange's VIX index, which tracks volatility underlying the S&P 100, is now higher than it was just after September 11th 2001 or in the aftermath of the collapse of Long-Term Capital Management in 1998.

In Europe, most equity indices, which seem often to amplify any swings in America, have fallen by around 9% (and in Germany by 11%) in the past week. The volatility of prices has also risen to new peaks. The German VDAX index, which tracks the implied volatility in Frankfurt's Xetra DAX index, has climbed to a record, near the 60% mark. Although the annualised monthly volatility of European share prices was around 12% in January, it has shot up to over 27% in the latest quarter, and to over 35% for the euro area alone.

Meanwhile, share-price volatility in emerging markets was a mere 19% in July and has now fallen back to 15%. Despite all the problems in Latin America, bourses there have not suffered as badly as in Europe. Asia's shares have also appealed to investors, especially since many of the structural problems stemming from the 1997-98 crisis have been overcome.

This strange inversion of volatility may be testing some popular investor notions, notably that higher risk is rewarded by higher returns. While volatility has increased sharply, share returns in rich countries have only sunk lower. Buyers of blue chips are finding risk in unexpected places.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Economics focus

All too human

Oct 10th 2002
From The Economist print edition

This year's Nobel prizes put man back at centre stage

BID farewell to the cold-hearted humans that, since Adam Smith's day, economists have used as their models. He (it is always a he) is particularly unlovable: selfish in the extreme, able to do sums in his head and an insufferable know-all. Now meet the new, sensitive *homo economicus*: he (she?) is more laid-back, relying on intuition and rules of thumb to make decisions, often without perfect knowledge.

This year's Nobel prize celebrates the ideas of Daniel Kahneman of Princeton University, who has built a career by reminding economists that their idealised subjects are all too human. The other winner, Vernon Smith of George Mason University in Virginia, has shown by experiments that, despite people's flaws, the perfect-world theories of university anoraks can work in the real world.

The awards, which combine the different work of two researchers at the crossroads of economics and psychology, mark a refreshing change for the Royal Swedish Academy of Sciences, which selects the winners. In recent years it seemed that most of the dismal science's giants had been spoken for, as the battle for most big economic ideas had already been won. Increasingly, the prize has gone to more abstract enthusiasms: game theory, statistics and monetary wizardry. Alfred Nobel's heirs even wanted to strip the economics prize of the family name, since so many winners did not share their anti-globalisation views.

How welcome then that Mr Kahneman, along with a colleague, Amos Tversky, who died in 1996, has made such an impact on the profession. Mr Kahneman is not even a traditional economist, but a psychologist. Yet his analysis of how humans make decisions when confronted by uncertainty and risk has created a new branch of economics. As a reward, their early work is cited in nearly every paper now written in the burgeoning fields of “behavioural” economics and finance.

Through experiments, they revealed that people look mostly to the information that surrounds them to understand how the world works, rather than having the unlimited knowledge hitherto assumed by ivory-tower economists. They also proved that people have a hard time working out the probability of future events. Another revelation is that answers to survey questions depend greatly on how they are phrased. If all this seems obvious, that just means you have not been trained as an economist.

Knowing that people get risks wrong has broad implications for public policy. For example, people tend to overestimate the probability of a nuclear-power disaster, and to underestimate the risks of being in a car accident.

Before Messrs Kahneman and Tversky came along, economists thought of human decisions in terms of expected utility: that is, the sum of the gains or wealth they think they will get from each possible future scenario, multiplied by its probability of occurring. But if people irrationally give greater weight to some scenarios than to others, their decisions will differ from the classical calculation. Observing this led Messrs Kahneman and Tversky to “prospect theory”, their greatest insight.

The best recent example of a failure to calculate risk is the stockmarket bubble. Insights from psychology show how people value the comfort of herds and are far more frightened of losses than inspired by potential gains. These weaknesses, say economists such as Robert Shiller, whose improbable bestseller, “Irrational Exuberance” (Princeton, 2000), foresaw the bursting of America's share-price bubble, can lead them to pay more for shares than any rational investor would.

Time for good behaviour

Do these findings mean that classical economics is useless? Economics is by no means a “hard” science. Most economists observe the world's economies from afar, and try to formulate theories to explain them. The laboratory experiments of physics and chemistry, or even psychology, seem inapplicable to market behaviour. How, after all, do you create a market in a test tube?

And yet. Although Mr Kahneman's experiments pointed out people's flawed assessments of many risks, Mr Smith's laboratory work proves that, in many market environments such as auctions, humans often behave exactly as rational economics would suggest. This may be because risks in most parts of market economies are not always as intractable as in Mr Kahneman's tests. Mr Smith's contributions have affected the design of large public auctions, for example for telecoms bandwidth, and have influenced policies of deregulation. A key insight was that laboratory volunteers needed enough incentives, specifically money, to behave as they would in the real world, and not just to try to please a kindly professor looking over their shoulder.

Known as the father of experimental economics, Mr Smith is hardly a household name. Yet, that may suit him just fine, since his experiments confirm that people entirely ignorant of economic laws (and indeed, of economists) often behave, even when there are few buyers and sellers, just as classical theory would predict. Another Smith (Adam) had a name for it: the Invisible Hand.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The science of autumn

Getting reddy

Oct 10th 2002
From The Economist print edition

As autumn arrives in the northern hemisphere, the season's must-have colour for trees is red—again. Researchers are beginning to understand why leaves sport it

SHELLEY poetically imagined that in autumn leaves lost their colour as the wild west wind drove them...

> ...like ghosts from an enchanter fleeing
> Yellow, and black, and pale, and hectic red,
> Pestilence-stricken multitudes.

Well, that is one hypothesis. But it is unlikely to stand up to scientific scrutiny. And a surprising amount of such scrutiny is being devoted to the question of why trees turn such glorious colours.

In deciduous woodland, the first signs of approaching autumn are written across the forest in shades of yellow and orange. Lower temperatures and shorter days trigger the breakdown of chlorophyll—the green molecule that captures energy from light in the process of photosynthesis. As the chlorophyll is removed, it reveals other pigments that have been swamped by its bold colour. These are called carotenoids. They aid the process of light absorption and, in chlorophyll's absence, give rise to pale and brilliant yellows, ambers, golds and oranges. Different species of tree retain different amounts of carotenoids, which leads to much of the polychromatic beauty of a forest in autumn.

So far so good. But what about those hectic reds? They have been a scientific curiosity for at least a century. The pigments responsible for reds (hectic and otherwise), and also for purple and magenta, are called anthocyanins. These molecules are actively created in autumn, rather than being revealed by chlorophyll's absence. In recent years, researchers have argued that they are produced in response to environmental cues.

Many scientists are in hot pursuit of those cues. What is more, this is a chase with economic goals. According to newly published research by the University of Vermont, more than 1.5m tourist trips were made to the state last autumn, and more than $700m was spent by these visitors. Most of those people went “foliage touring”. In Wisconsin, a bigger state, spending by foliage tourists is more than $1 billion. If reliable colour forecasts could be made, even more visitors might be attracted.

It doesn't grow on trees, you know

The revival of interest in the origin of autumnal reds began with work by William Hoch and his colleagues at the University of Wisconsin-Madison. Late last year they reviewed the evidence in an article in *Tree Physiology*. They found that it supported an idea proposed in the 19th century—that anthocyanins shade the photosynthetic apparatus of the leaf from excess light.

Dr Hoch's team extended this idea, arguing that as a plant starts to disassemble its light-gathering apparatus in preparation for winter, its leaves become particularly sensitive to light damage. The process of disassembly liberates chlorophyll from a molecular production-line called the electron-transfer system. That system is designed to corral the energy captured by chlorophyll and use it to build up sugar molecules. Lone chlorophyll, however, dumps its energy any old how, resulting in the formation of destructive molecules called free radicals and peroxides. These can kill a leaf.

That might not be thought to matter, since the leaves are about to be discarded anyway. But the reason for the disassembly of the light-gathering apparatus is to recover as many valuable chemicals as possible from each leaf before it drops. Premature leaf fall would thus be a bad thing.

Anthocyanins, Dr Hoch argues, provide a natural sunscreen for a plant's leaves. They absorb light that would otherwise be picked up by lone chlorophyll molecules, thus preventing damage during the period of nutrient recovery. His team found support for this theory in work showing that autumnal anthocyanins were most abundant in leaves exposed to direct sunlight, and least so in those shaded by the canopy.

Other work supports the idea that it is nutrient recovery which is driving the process. In a forthcoming issue of *Tree Physiology*, Paul Schaberg, a researcher working for the United States Department of Agriculture in Vermont, and his colleagues, will report the results of their experiments with sugar maples. Dr Schaberg has found that the timing and extent of red coloration in different trees is consistently related to the concentration of nutritionally valuable nitrogenous compounds and sugars in the leaves. Nutrient deficiencies, especially of nitrogen, triggered more intense colour in maples as the trees attempted to lessen the effects of sunlight.

Not everybody agrees that the main autumnal role of anthocyanins is protection from excess illumination. Their production is triggered by things besides light and nutrient deficiencies: drought, low temperatures, wounding, infection and exposure to ozone are all known to stimulate synthesis of these molecules. Some researchers therefore believe that anthocyanins are doing several jobs at the same time. Besides absorbing light, the pigments can neutralise free radicals directly, help cells to hold on to their water, and even act as an antifreeze.

The precise triggers for anthocyanin production could thus take years to figure out. Until then, a reliable foliage forecast is that researchers will spend their time seeing red, while everybody else simply enjoys the technicolor, sylvan swansong of the autumn.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The science of spring

A youthful blush

Oct 10th 2002
From The Economist print edition

Young leaves, as well as old ones, are often coloured red

THEY may not have the same visual impact as their elderly cousins, but young leaves are often flushed red, too, particularly in the tropics. In a study just published in *Oikos*, Nathaniel Dominy of the University of Chicago and his colleagues pooled existing information on the leaves of hundreds of tree and shrub species from Central America, Africa and South-East Asia. They discovered that in as many as 62% of them, young leaves tend to be coloured anything from pale pink to deep red.

Why autumn leaves are red is controversial (see article). But the reason for youthful blushing—which, like the ruddiness of old age, is due to the presence of anthocyanin pigments—need not be the same. There are three front-runners: that the pigments are protecting developing leaves from infection by fungi; from damage by ultraviolet light; or from being eaten by insects. Dr Dominy's huge database allowed him to test each of these hypotheses.

If preventing fungal attack were the explanation, he argues, young red leaves ought to be more common in a forest's wet understorey, where fungi thrive, than in the drier canopy. The reverse would be true if protection from ultraviolet light were the answer, since the canopy is sunnier than the understorey. But in fact, young red leaves are equally common throughout a forest's layers.

Dr Dominy concludes that the flush of youth is there to stop young leaves being eaten. As he observes, herbivorous insects usually have good vision in the blue part of the spectrum, but most lack a red receptor, so they cannot see red leaves. (This also calls into question yet another hypothesis about showy autumn colours—that they demonstrate a tree's health, and thus discourage harmful insects from overwintering there.) Being green earlier than necessary is asking for trouble. In effect, young leaves are mimicking old and inedible ones.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The 2002 Nobel prizes

Windows on the world

Oct 10th 2002
From The Economist print edition

This year, the Nobel authorities have shown a deft touch

SOMETIMES, the committees that hand out Nobel prizes behave as if they had been living on another planet for the past few decades. The awards they give then seem to be for half-remembered discoveries that were, no doubt, important at the time, but whose significance has now vanished into a rarefied obscurity. This year, however, the Karolinska Institute in Stockholm, which decides who wins the prize for physiology or medicine, has shown an admirable grasp of reality. Faced with the inevitable question—"who should get the award for the Human Genome Project?"—it seems to have concluded that the answer should be "nobody".

That, at least, is one interpretation of its decision to give part of the 2002 prize to Sir John Sulston. Together with Sydney Brenner and Robert Horvitz, Sir John will be making the trip to Stockholm this December to collect a share of the million-dollar award for work on the embryology of a tiny worm called *C. elegans*. He will not—at least not officially—be there because he was head of a laboratory (the Sanger Institute, in Cambridge, England) that did much of the donkey-work for the publicly funded human-genome sequencing effort.

It is a clever tactic. The Human Genome Project was a formidable achievement, but one that was managerial as much as scientific, and there is no Nobel prize for management. Instead, Sir John has been given a prize for real scientific work which nobody could doubt was of Nobel quality. That may point the way to the future.

In particular, Craig Venter, Sir John's rival from the private sector, could yet be given a prize for the technique known as whole-genome shotgunning. Besides lighting a fire under the public side of the project, this technique enabled Dr Venter and his collaborators to publish the first complete genetic sequence of a living organism, a bacterium called *Haemophilus influenzae*. Again, that was real science, rather than project management. And perhaps the Karolinska could spare a thought for Leroy Hood, who invented the sequencing technique that made the whole thing possible—though that work might, more properly, fall within the purview of the Swedish Royal Academy of Sciences, which decides the winners of the chemistry (and also the physics) prizes.

The *C.elegans* project was started in the 1970s by Dr Brenner, then at Cambridge University. He chose the worm because it was a multicellular animal with properly differentiated organs (a nervous system, gut and so on) that consisted of only a few hundred cells. Its multicellularity meant it could act as a model for more complex animals, such as people. Its simplicity meant that understanding what was happening as it developed might be easier.

Of course, simplicity is a relative thing. But Sir John showed the wisdom of Dr Brenner's choice when he discovered that (sex cells aside) adult worms all have 959 cells in them, and that the pattern of cell differentiation which leads from egg to adult is the same in every individual. Sir John and Dr Horvitz also showed that an important part of the development process was the genetically programmed death of certain cells. That discovery has cast light on human embryonic development and, indeed, on the everyday working of adult bodies.

The physics prize was split not just between three individuals, but between two disciplines. Neutrino astronomy and X-ray astronomy share characteristics, however. Both allow a take on the universe that is different from the one provided by more familiar methods using light and radio waves. And both are hard to do. Neutrino astronomy is hard because neutrinos (a type of electrically neutral elementary particle) are rarely absorbed by matter. That makes them difficult to detect, and means that neutrino telescopes have to be built underground to stop the detectors registering other forms of radiation by mistake. X-ray

astronomy is tricky for the opposite reason. Despite their use in medical imaging, X-rays are easily absorbed by matter. In particular, they are absorbed by the atmosphere, so X-ray telescopes have to be put into space.

The neutrino prize was shared by Raymond Davis and Masatoshi Koshiba. The X-ray prize-winner was Riccardo Giacconi. All three were pioneers in their fields. Dr Davis realised that because theory predicted that neutrinos ought occasionally to react with chlorine atoms to make argon, they could be detected indirectly if enough chlorine was put in one place. In the 1960s, he built a tank filled with tetrachloroethylene (a common dry-cleaning agent) in a gold mine in South Dakota, and counted the argon atoms it produced. Dr Koshiba's device, which worked by detecting light generated as a result of collisions between neutrinos and the electrons in water, was located down a Japanese zinc mine.

Together, these early telescopes found neutrinos from the sun, and from distant supernovae. Dr Koshiba's second detector showed that neutrinos, previously believed to be massless, actually have a small mass. That has significant implications for fundamental physics. Dr Giacconi was responsible for a series of increasingly sophisticated X-ray space-telescopes. These have mapped the cosmos at X-ray frequencies, and resulted in the discovery of, among other things, the first black holes.

The chemistry prizes, too, were in related fields. Mass spectrometry and nuclear-magnetic resonance (NMR) spectroscopy are very different techniques, but both are used to shed light on the structure of large biological molecules.

The prize for mass spectrometry is shared by John Fenn and Koichi Tanaka. The technique itself is 90 years old, and even the Swedish Royal Academy of Sciences is not that backward-looking. Dr Fenn and Dr Tanaka have won their awards for improvements to it.

Mass spectrometry works by evaporating molecules, giving them an electric charge, and then applying an electric field to them and accelerating them through a vacuum chamber to a detector. The time they take to traverse the chamber depends on their charge and their mass. Since the charge comes in small multiples of the charge on an electron, it is easy to account for. The mass can thus be calculated. The problem, as far as big molecules are concerned, is the evaporation part. Dr Fenn overcame this by using an electric field to spray them into the chamber. Dr Tanaka used a pulse of laser light.

The NMR award went to Kurt Wüthrich. Again, he did not invent NMR spectroscopy. Rather, he showed how it could be applied to big molecules, particularly proteins. The technique, which relies on stimulating atomic nuclei to give out radio waves, allows the positions of individual atoms in a molecule to be mapped. With some proteins, that can also be done by X-ray crystallography, but this technique requires firing X-rays at solid crystals of the substance. The advantage of NMR spectroscopy is that it works with molecules in solution, and so allows maps to be made of proteins that will not crystallise.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Pill

Contracontraception

Oct 10th 2002
From The Economist print edition

Contrary to popular belief, using birth-control pills for many years does not impair a woman's ability to conceive—in fact, it may enhance it

USERS of contraceptive pills have had to put up with a lot of worries over the years—deep-vein thrombosis scares, unwanted weight gain and migraine headaches, to name just a few. Women who stop taking the Pill are often advised to "detox" themselves for a few months before trying to conceive. They are further warned that getting pregnant may be harder than it would have been had they never taken chemical contraceptives.

Not so, suggests a study just published in *Human Reproduction*. Alexandra Farrow, an epidemiologist at Brunel University, in London, and her colleagues, looked at planned pregnancies in 8,497 couples. The couples were asked to fill in a questionnaire that inquired about such matters as age, drinking and smoking habits, Pill use and how long it took to get pregnant.

It turned out that, far from being less fertile than normal, women who had taken the Pill for at least five years were more likely than non-Pill users to conceive within 12 months of starting to try. Some 90% succeeded, as opposed to 85% of those who had not taken the Pill. In fact, the longer a woman had taken contraceptive pills, the more likely she was to conceive quickly, even after other factors were taken into account.

These findings support the idea that the Pill keeps a woman's ovaries young. Chris Ford of the University of Bristol, one of Dr Farrow's co-authors, speculates that by preventing ovulation and the stresses that it puts on the reproductive system, Pill-using women may, in effect, be cheating time. Pill use may also maintain a woman's limited store of eggs, which some people think are ovulated in order, from best to worst.

The researchers cite work carried out a few years ago in Australia. This found that women who had taken the Pill for years were less likely to suffer age-related miscarriages, which are usually caused by bad eggs. Pill-using women over the age of 30 cut their risk of miscarriage from 28% to 7%, according to that study. The next phase will attempt to find out if prolonged Pill use pushes back the menopause, as this theory suggests it should.

All of which is an amusing twist to a tale that began in the 1950s, when a gynaecologist called John Rock first administered oestrogen and progesterone—the main components of the Pill—to a group of women. Rock's goal was not contraception, but conception. His patients were having trouble conceiving, and he reckoned that their ovaries might do better after a short break from ovulating. He appeared to be right. But the preparation he was using was then reformulated as the birth-control pill. What goes around, it seems, comes around—eventually.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Napoleon, Nelson and Wellington

Men of magic

Oct 10th 2002
From The Economist print edition

Corbis

The great men of Napoleonic Europe deserve great biographies

THE campaigns of Napoleonic Europe provide for cliff-hanging tales—of ambition, treachery and genuine heroes. Heroes are unfashionable among serious historians, but Richard Holmes, in a new biography, concludes that the first Duke of Wellington “was undoubtedly great”. This is no glib judgment, for Mr Holmes acknowledges the recent assaults on the duke's reputation and, while not finding him guiltless, still leaves him noble.

The subtitle of Mr Holmes's biography is “The Iron Duke”, a nickname that did not come from the battlefield, but from Wellington's political years during which he installed metal shutters on his house to prevent irate mobs from breaking his windows. As a politician, then, the duke was not quite the paragon he was in battle, but Mr Holmes is above all a military historian, and he devotes a scant 46 pages to the duke's final 37 years during which the victor of Waterloo became prime minister.

This is not a complete biography, but rather a companion to Mr Holmes's BBC television series which concentrated on the duke's military years. Were it not for the lure of the camera, it is doubtful that the book would have been written, for it follows hard on the heels of Christopher Hibbert's masterful life of Wellington (Perseus, 1997) which, like Mr Holmes's, was written for a general audience. Yet Mr Holmes, like Mr Hibbert, is incapable of writing a bad book and this biography is efficient and judicious.

Wellington complained that he had been “much exposed to authors”, a lament that would have been scorned by his principal opponent who loved fame as he loved battle and who, during his exile on Saint Helena, used a dishonest pen to gain revenge on his enemies. Napoleon's biographers have been disentangling the record ever since and few have made as painstaking an effort as Frank McLynn.

Wellington: The Iron Duke
By Richard Holmes

HarperCollins; 324 pages; £20

Buy it at
Amazon.co.uk

Napoleon: A Biography
By Frank McLynn

Arcade Publishing; 752 pages; $32.95.
Jonathan Cape; £25

His biography of Bonaparte was published in Britain five years ago and might have been expected to appear in America much sooner than this had that field not been held by Robert Asprey's recent two-volume biography of Napoleon (Basic Books, 2000-01). Mr Asprey, a military man, worships at the shrine, but Mr McLynn prefers the couch. Napoleon, we are assured, is the “acme of primitivism” complicated by a “Joseph complex” (Joseph being his elder brother). He possesses an “unconscious desire for revenge against the opposite sex”, a “mother fixation” and, hardly surprising, a “mother complex”; to this witches' brew is added “a fear of illicit sexual relations”, all of which, presumably, adds up to a Napoleon complex.

This is often enlightening, but in the end, Napoleon is simply too extraordinary to yield to such analysis. “His real magic”, Mr McLynn writes, “was in the mythical realm rather than actuality” and though the book provides a thorough account of an astonishing career, the psychology fails to capture the magic. Napoleon, as Mr McLynn demonstrates, was a risk-taker who lived by his considerable wits. He was a callous man who was careless of human lives, but, above all, he was in love with war and Mr McLynn is not always reliable on military detail (far from issuing rifled carbines to “snipers, sharpshooters, skirmishers, voltigeurs and NCOs”, Napoleon distrusted rifled longarms and forbade their use). As an adventurer, of course, Napoleon is a *non pareil* and in the end the psychoanalysts are left bemused by a myth beyond their dissection.

Close to 4m people died to make the emperor's myth and Paul Johnson, in his new brief biography, does not forget that sacrifice. What an extraordinary man Mr Johnson is. He is at present writing a comprehensive history of art, has written long histories of the Jews, of Christianity, of the Americans, of the birth of the modern, and still he finds time to produce an engaging weekly newspaper column. A journalist by trade, an historian by inclination and a polemicist by nature, he might not have been the obvious choice to write a life of Napoleon Bonaparte, but what an inspired choice he has proved. This is a jewel of a book; comprehensive, brief and passionate. For Mr Johnson, and this is his great strength, there is a moral imperative to all existence and Napoleon fails that test. He was an opportunist dressed in romantic clothing, and though he wrapped his adventures in gaudy justifications, at root he was a heartless killer. Mother complex be damned, he was a nose-picker.

Yet the nose-picker could have bestrode the world if he had managed to cross the English Channel, and Tom Pocock has written an engrossing account of the years leading up to the battle of Trafalgar where Nelson finished off Napoleon's plans for invading Britain. “The Terror before Trafalgar” is narrative history at its shining best; a tale of secret agents, small ships slipping through the channel darkness, thumbscrews and murder in Paris cells, an emperor's impotent rage and an adulterer's magnificent triumph. Nelson and Napoleon were, as Mr Holmes writes of Wellington, “built on a grand scale”, but, Mr Holmes concludes, “I see little signs of such figures in our own landscape.” Our loss, but publishing's gain.

Wellington: The Iron Duke.
By Richard Holmes.
HarperCollins; 324 pages; £20

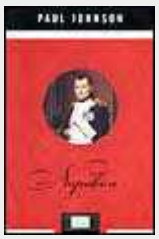
Napoleon: A Biography.
By Frank McLynn.
Arcade Publishing; 752 pages; $32.95.
Jonathan Cape; £25

Napoleon.
By Paul Johnson.
Penguin Lives/Viking Press; 190 pages; $19.95.
Weidenfeld & Nicolson; £12.99

The Terror Before Trafalgar: Nelson, Napoleon and the Secret War.
By Tom Pocock.
John Murray; 255 pages; £20

Buy it at
Amazon.com
Amazon.co.uk

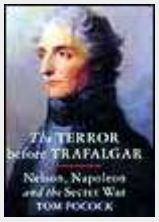
Napoleon
By Paul Johnson



Penguin Lives/Viking Press; 190 pages; $19.95.
Weidenfeld & Nicolson; £12.99

Buy it at
Amazon.com
Amazon.co.uk

The Terror Before Trafalgar: Nelson, Napoleon and the Secret War
By Tom Pocock



John Murray; 255 pages; £20

Buy it at
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Globalisation

Know your enemy

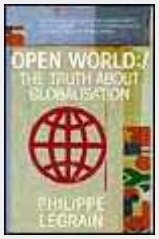
Oct 10th 2002
From The Economist print edition

DID the world really need hundreds more pages on globalisation? Countless authors have already had their say. Many of those earlier books got warm reviews, and a few even became bestsellers. Enough is enough, you might suppose.

There are plenty of books about globalisation, to be sure. But remarkably few are any use. In vanishingly short supply are books that are intellectually rigorous without being stuffy or inaccessible; which explain in plain words why globalisation is mostly to be celebrated, without denying that it raises problems; which confront bad arguments for globalisation as firmly as they deal with bad arguments against. So in fact the world did need another book about globalisation; “Open World” is it.

Philippe Legrain is an enthusiastic advocate of open markets and economic freedom (though capital markets are an exception, he reckons). As a former adviser to the director-general of the World Trade Organisation, and before that an economics correspondent of this newspaper, this stance comes as no great shock. He presents the orthodox case for deeper economic integration with flair.

Open World: The Truth About Globalisation
By Philippe Legrain



Abacus; 384 pages; £12.99

Buy it at
Amazon.co.uk

But Mr Legrain also understands that the enemies of globalisation include those who see themselves as its advocates. These unwitting enemies of economic integration probably do more to sap popular support for the liberal economic order than those who dedicate themselves to smashing it. In defending globalisation from these would-be sponsors as well as from orthodox anti-globalists, the book stands apart.

First things first, however: ordinary anti-globalism comes in for a thorough, and thoroughly deserved, beating. Mr Legrain shows that economic integration is the only hope for many of the world's poorest people. He reviews the economic evidence carefully, and illuminates it with well-chosen illustrations from Vietnam, South Korea, Mexico and many others. The book also explains why the anti-globalists' loathing of brands is so misplaced, and why it is wrong to see trade as any more of a curse on rich-country workers than progress in technology: both raise living standards, both involve social and economic strain (which well-judged policy can mitigate).

Mr Legrain then turns his attention to the muddled arguments that are often advanced in favour of globalisation, or which, at any rate, are intended to reconcile people to it. Wake up to reality, goes one such line. Companies are more powerful than governments nowadays. Politics is being hollowed out, and protest is pointless. “Globalisation isn't a choice, it's a reality,” as Thomas Friedman put it in “The Lexus and the Olive Tree” (Farrer, Straus & Giroux, 2000).

“Open World” explains that, on the contrary, globalisation is a choice. The book shows that governments have great sway over both the extent and the form of economic integration. As for the idea that companies are more powerful than governments, it dissolves the moment you examine it. “We can still shape our destiny,” concludes Mr Legrain. That makes the opportunities of globalisation “all the more apparent, its threats suddenly less menacing.” His excellent book has much the same effect.

CLIVE CROOK

Open World: The Truth About Globalisation.
By Philippe Legrain.

Abacus; 384 pages; £12.99

Our policy is to identify reviewers of books by or about anyone closely linked to *The Economist*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Architectural biography

A looming figure

Oct 10th 2002
From The Economist print edition

AT THE bicentenary of Sir Christopher Wren's death in 1923, there was a warm rush of sentiment towards him as an exemplar of Englishness. Later critics were more inclined to note his weaknesses, particularly his apparent unwillingness to adopt a systematic application of classical rules. Many architects prefer the disciplined power of Wren's pupil, Nicholas Hawksmoor, and Wren today is largely a non-architects' architect.

Lisa Jardine established her academic reputation studying the scientific revolution of the 17th century. Her biography of Wren offers a new look at an apparently well-worn subject. In addition to being an architect, Wren was a brilliant mathematician who made important astronomical discoveries and who contributed to the collective work of many eminent colleagues, including Robert Hooke.

Ms Jardine gives priority to Wren's work as a scientist. Her portrait of the after-effects of the English civil war from the viewpoint of Wren's royalist family and friends evokes the reality of literal and metaphorical exile, offering spare time for experiment followed by a need to rebuild lost fortunes.

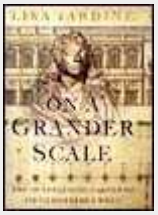
However, the desire to create a long book based on documents means that intellectual structure is often obscured by detail. The evidence about Wren's personal life and feelings is meagre and the subject is almost lost in the context of his life. Moreover, Ms Jardine seems to agree with Wren's own view that architecture was probably a waste of his talents. Sadly this also means that her accounts of his major buildings, such as Trinity College library, Greenwich and Chelsea hospitals and St Paul's cathedral itself, are fragmentary and the illustrations poor. Her discovery, announced in the preface, that the intended use of the Monument to the Great Fire of London was as an observatory and experimental “drop”, turns out many pages later to be already well documented.

Ms Jardine is praised, at the front and the back of the book, for “making the past seem relevant to our own times”, but opportunities to do so have been missed.

The Church of England, whose contradictory values Wren embodied in architecture, seems to some to be possessed by a death wish. And the legacy of the scientific revolution that Wren helped to create has often come under attack. Yet Wren's buildings at Greenwich, occupied by Greenwich University and Trinity College of Music, are becoming thriving places of learning and culture rather than anomalous monuments to a departed naval supremacy. These are issues from which a popular historian might have drawn some interesting conclusions, but Ms Jardine's readers must listen for these echoes on their own.

On a Grander Scale: The Outstanding Career of Sir Christopher Wren.
By Lisa Jardine.
HarperCollins; 582 pages; £25. To be published in America by HarperCollins in March 2003

On a Grander Scale: The Outstanding Career of Sir Christopher Wren
By Lisa Jardine



HarperCollins; 582 pages; £25. To be published in America by HarperCollins in March 2003

Buy it at
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

New fiction

Making up is never easy to do

Oct 10th 2002
From The Economist print edition

UMBERTO ECO made his name as a novelist in the early 1980s with “The Name of the Rose”, a global blockbuster which managed to combine high ideas, literary panache and powerful page-turnability. It has proved a tough act to follow. Though well received, none of Mr Eco's subsequent novels, including “Foucault's Pendulum” and “The Island of the Day Before”, has put lightning in the bottle in quite the same way.

The first ten pages of his latest offering, “Baudolino”, seem promising enough. But the next 500 or so are a gradually palling, tortuously overlong and self-indulgent joke. By the end of the novel, Baudolino, the hero, is an old man who lives as a hermit, dispensing gnomic words of wisdom to anyone who can be bothered to come and quiz him. When an angry mob starts throwing stones at the bearded sage, you might well find yourself silently egging them on.

As the story gets under way, in the early years of the 13th century, the knights of the fourth crusade are having a high time sacking Constantinople. A timid courtier and historian called Niketas finds himself caught in the middle of the mayhem, but is rescued by a curious, shock-headed, multi-lingual fellow who introduces himself as Baudolino.

Baudolino
By Umberto Eco.
Translated by William Weaver

Harcourt Brace; 528 pages; $27.
Secker & Warburg; £18

Buy it at
Amazon.com
Amazon.co.uk

While the courtier and the crusader escape to safety, Baudolino begins to unfold the story of his life, starting with his chance meeting, as a teenage boy, with a grand-looking soldier in the woods near his home in northern Italy. The soldier turns out to be none other than the German king and Roman emperor, Frederick Barbarossa, who is so taken by the waggish, compulsively storytelling peasant brat that he adopts him.

Later, Baudolino is sent to Paris to pursue his studies. There, between bouts of drinking and whoring, and with the help of a mysterious intoxicant known as “green honey”, he and a ragtag band of fellow students come up with the idea of an epic quest to the far-eastern kingdom of Prester John.

The rest of the novel relates their seemingly interminable road trip in search of the legendary prelate-king. It takes in, among other things, the crusades, the legend of the Holy Grail and the power struggles between the pope and the emperor, combining myth, fantasy and historical fact. There is an endless stream of arcane chit-chat, as Baudolino and his chums discourse on the urgent issues of the day, like the size of Solomon's Temple and the precise location of the earthly paradise. There are giants, eunuchs and Cyclops-like one-eyed freaks, too—even a unicorn, for good measure.

Underlying all this learned whimsy is the rather hackneyed theme of stories versus histories, fantasy versus reality, fiction versus fact. Early on, a tutor points out that Baudolino is a born liar. “But you mustn't think I'm reproaching you,” the tutor adds. “If you want to become a man of letters and perhaps write some histories one day, you must also lie and invent tales, otherwise your history would become monotonous. But you must act with restraint.” He's quite right, of course. There's nothing wrong with making stuff up. But going over the top can kill a good story. If only Mr Eco had heeded his character's sound advice.

Baudolino.
By Umberto Eco. Translated by William Weaver.
Harcourt Brace; 528 pages; $27.
Secker & Warburg; £18

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Chekhov in London

Uncle Anton and the sisters

Oct 10th 2002
From The Economist print edition

London's love affair with Chekhov's plays burns more fiercely than ever

THE ever-so-Russian Anton Chekhov tends to be a constant of the London stage, but it is nonetheless rare to find three of his plays—well, two, and a third directly inspired by him—opening in the capital within four days of one another. And yet, that very scenario is currently offering London theatregoers a crash course in the crushed hopes and unfulfilled dreams that fuel the writings of the doctor-turned-dramatist, whose work retains its full potency and force a century or more after its birth.

Small wonder, as one English actor, Sir Ian McKellen once put it, that Chekhov has “nearly been domesticated as an English playwright.” To see “Ivanov”, “Uncle Vanya”, and Brian Friel's Chekhov-themed “Afterplay” in quick succession is to glimpse the Anglo-Irish theatre's abiding empathy with dramatic literature's premier poet of the misspent life.

That sense of waste is nowhere more vivid than in “Ivanov”, which the National Theatre has revived in a new version by a Scottish dramatist, David Harrower. The National's choice of this particular text might seem odd, given that no less an actor than Ralph Fiennes appeared as Ivanov in a widely acclaimed 1997 production of Chekhov's seminal early play that travelled from London on to Moscow.

But it has often been the way of the London theatre purposefully to invite direct comparisons. By that reasoning, if you can have the Redgrave family playing Chekhov's three sisters directly on the heels of Ireland's Cusack siblings, as has indeed happened, five years between productions allows plenty of time to approach one of Chekhov's other plays afresh.

What's more, there's unlikely to have been a nervier and more edgy approach to “Ivanov” than the one chosen at the National by the director, Katie Mitchell. As if taking her cue from the snippets of Schnittke and Shostakovich that are heard throughout, Ms Mitchell has turned a portrait of provincial Russian ennui circa 1886 into a fiercely unsentimentalised portrait of communal agitation spilling over into rage. The language comes complete with references to bones “torn from their sockets”, while Ivanov's anti-Semitic attacks on his dying wife are both casual and blunt.

The result releases the play from Chekhov's natural languor while blunting its pathos in the process. With a deliberately indrawn Owen Teale leading an otherwise sharp-edged cast in the title role, this “Ivanov” has negative energy to spare and almost no compassion. It's Chekhov, one feels, done as bilious critique.

That's never the case with the new Donmar Warehouse staging of “Uncle Vanya”, one of Sam Mendes's last productions in the influential studio theatre that he has run for the last ten years. How, you might well ask, could a director possibly pass judgment on anyone in “Vanya” when the characters are so busy finding their own fault with themselves? In the end, it's hard to know whom to bleed for more—Simon Russell Beale's self-flagellating Vanya, a would-be Nietzschean man of grandeur who has been condemned to a life without love. Or Helen McCrory in a career-making turn as Yelena, the object of Vanya's affections: a shimmering vision in white whose caresses possess a teasing cruelty that this elegant fashionplate has turned on herself.

Brian Friel's crisp version of the play, first seen in Dublin in 1998, flirts with the madness that “Ivanov” embraces head on. Describing himself “on the verge, on the verge, on the verge”, Mark Strong's Astrov gives vent to the turbulence that expands our perceptions of a merely soulful Chekhov. There's a double fascination, then, to be had at “Afterplay”, a 70-minute Friel original—at the Gielgud theatre after a successful run in Dublin—that posits a chance meeting in Moscow two decades on between Penelope Wilton's now middle-aged Sonya, Vanya's determined helpmate and niece, and John Hurt's Andrey, the lone brother to Chekhov's three sisters.

How has everyone fared in the interim? Not brilliantly, it emerges, as the two trade notes: Vanya has had a stroke; Masha, the liveliest if most tenaciously smitten of Andrey's sisters, shot herself aged 30 (shades there of the suicidal Ivanov); and Sonya has herself succumbed to what she calls that “endless tundra of aloneness”. All this may sound dreary but really isn't, actually, for the simple reason that “Afterplay” is canny enough, and Chekhovian enough, to lace its heartbreak with laughs.

For proof, consider the curt summation of what has happened to Yelena, since she was last seen in “Uncle Vanya” holding an entire estate in erotic thrall. Yelena now travels, Sonya reports briskly, and Penelope Wilton lands the line with the aplomb of a born comic, “wherever there are shops.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bestsellers in France and Germany

What the world is reading

Oct 10th 2002
From The Economist print edition

No blessings on America

FRENCH and German readers love American novelists; Jonathan Franzen, Philip Roth, Stephen King and Peter Straub all appear on the bestseller lists. The Germans even love the kind of non-fiction so many Americans love: globalisation, self-help and happiness. But in France, it is anti-Americanism itself that is most under scrutiny.

Jean-François Revel's “L'obsession anti-américaine” and Emmanuel Todd's “Après l'empire”, together with Philippe Roger's widely acclaimed “L'ennemi américain”, which has yet to climb into the charts, all look at the history of anti-Americanism in France, a sentiment that is often so violent and so reflexive as to be virtually irrational. One of the authors believes this is France's way of masking its own failures, while another sees French anti-American sentiment instead as an old tradition, mixing fear and condescension, in which conflicting political and intellectual interests find a rare piece of common ground. To Americans, France's anti-Americanism just appears petulant, ungrateful and unkind.

Bestsellers

	FRENCH FICTION	FRENCH NON-FICTION
1	**Allons voir plus loin, veux-tu?** *by Anny Duperey* When lonely hearts collide	**Journal interrompu** *by Sylviane Agacinski* Philosopher's diary
2	**Robert des noms propres** *by Amélie Nothomb* Prison, pregnancy and murder	**Qu'apprend-on à l'école maternelle?** *published by the CNDP* Nursery school curriculum
3	**Un coupable trop parfait** *by Patricia J. MacDonald* Suicide or murder?	**Qu'apprend-on à l'école élémentaire?** *published by the CNDP* Elementary school curriculum
4	**La tache** *by Philip Roth* Black on the inside	**Mes secrets** *by Lorie* Pop starlet comes clean
5	**Les corrections** *by Jonathan Franzen* Megaselling kitchen-sink drama	**L'obsession anti-américaine** *by Jean-François Revel* Anti-American prejudice
6	**Tigre en papier** *by Olivier Rolin* Swinging in the 1960s	**Le pianiste** *by Wladyslaw Szpilman* Musician's autobiography
7	**Le disque de jade: Les chevaux célestes** *by José Frèches* First instalment in Chinese historical saga	**Après l'empire** *by Emmanuel Todd* More to life than America
8	**Faire l'amour** *by Jean-Philippe Toussaint* Breaking up is hard to do	**Démolition avant travaux** *by Philippe Meyer* Contemporary French politics
9	**One man show** *by Nicolas Fargues* Temptations of the modern author	**Caméra subjective** *by Anne Sinclair* Journalist's political diary
10	**Les chrétiens: Martin, le manteau du soldat** *by Max Gallo* Birth of Christianity in France	**La chute de Berlin** *by Antony Beevor* Anatomy of a bloody victory

	GERMAN FICTION	GERMAN NON-FICTION
1	**Das flammende Kreuz** *by Diana Gabaldon* American colonial saga	**Duden: Die deutsche Rechtschreibung** *published by Bibliographisches Institut, Mannheim* Spelling and grammar reference book
2	**Die Leopardin** *by Ken Follett* Wartime cloak-and-dagger	**Die Wut und der Stolz** *by Oriana Fallaci* Anti-Islamic polemic
3	**Das Lächeln der Sterne** *by Nicholas Sparks* Falling in love again	**Die Glücksformel** *by Stefan Klein* Formula for happiness
4	**Die Stadt der wilden Götter** *by Isabel Allende* Magic realism for kids	**Der Weg zum Glück** *by the Dalai Lama* Another formula for happiness
5	**Der Alchimist** *by Paulo Coelho* Journey of enlightenment	**Mein verwundetes Herz** *by Martin Doerry* Concentration-camp correspondence
6	**Die Korrekturen** *by Jonathan Franzen* Megaselling kitchen-sink drama	**Simplify your life** *by Werner Tiki Küstenmacher and Lothar Seiwert* Self-help tips
7	**Abbitte** *by Ian McEwan* Perils of storytelling	**Freunde sterben nicht** *by Markus Wolf* Spy-master's memoirs
8	**Das blaue Kleid** *by Doris Dörrie* Semi-autobiographical novel	**Was mir wichtig war** *by Marion von Dönhoff* Posthumous collection from *Die Zeit* publisher
9	**Rudernde Hunde** *by Elke Heidenreich and Bernd Schröder* Short-story collection	**Der Fluch des neuen Jahrtausends** *by Peter Scholl-Latour* Veteran journalist on modern hot-spots
10	**Das schwarze Haus** *by Stephen King and Peter Straub* Collaborative chiller	**Die Ethik des Erfolgs** *by Hans-Olaf Henkel* Globalisation as the key to Germany's success

Sources: *Livres Hebdo; Focus*

Descriptions by *The Economist*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Walter Annenberg

Oct 10th 2002
From The Economist print edition

Walter Annenberg, media tycoon and ambassador, died October 1st, aged 94

AP

ONE of the eternal mysteries of life is why so many men with pots of money want to have more of it. With Walter Annenberg, the better question was why he should have wanted to give the stuff away. This he did, by the shovelful.

Still, he had to make it first. Although he started out, as he said himself, “with an awful lot handed to me”, it was not all in the form of dollar bills. The silver spoon bequeathed by his rags-to-riches father was laden with debt by the time the old man died. Worse, it was stained by disgrace: in 1940, Moses Annenberg had been sentenced to three years in prison for tax evasion. Walter was haunted by the memory for the rest of his days—not least perhaps because the government, in return for a plea of guilty from the father, dropped similar charges against the son.

In any event, as a minus-millionaire on a grand scale—the net $2.9m owed by his father's estate in 1942 would be worth $32m today—Mr Annenberg had every reason to get his act together. And this he did. Though he had dropped out of university, he had already been quick in paying off his father's unpaid taxes. Now he was to transform his father's businesses, among them the *Philadelphia Inquirer* and a couple of racing papers, plus a wire service that sent racing results to bookmakers across the country, into a huge media empire. In 1944 he started *Seventeen* and began buying television and radio stations. This led on to the purchase of some local television-listings magazines, which, in an inspired act in 1953, he combined into *TV Guide*, whose circulation was eventually to reach 20m a week, with revenue to match.

Money, however, was not enough for Mr Annenberg. He wanted respectability. This was to come partly by using the *Inquirer* to take up public causes and campaigns. He also developed a taste for art, and a fine collection, especially of Impressionists. He was equally eager to cultivate politicians, among them Dwight Eisenhower, Richard Nixon and, in due course, Ronald Reagan. The Reagans were regular visitors at Sunnylands, the Annenbergs' verdant retreat in the Californian desert.

Above all, though, Mr Annenberg earned respectability by giving his money away. He had started to do this the day he left his prep school, with a gift of $17,000 for a running track. By the time he died, he had handed over more than $2 billion in cash, and pictures worth at least half as much. The recipients varied from individual employees of his companies to the Philadelphia Orchestra, from the United Negro College Fund to the White House (which got a bowling alley), from Harvard to various Republican candidates.

He did not, however, buy his ambassadorship to the Court of St James, the appointment that probably brought him more respectability than any other, and certainly more pleasure. True, he gave money to CREEP, the Committee to Re-elect the President, but that was after Nixon had sent him to London. At first, the British found Mr Annenberg a bit of a joke. In answer to a question from Queen Elizabeth, he said he was suffering some “discomfiture as a result of the [embassy's] need for, uh, elements of refurbishment and rehabilitation”. But he won hearts, if not minds, by throwing lavish parties and opening his chequebook to British causes.

Great as his beneficence was, it could be self-serving. When he gave his picture collection to the Metropolitan Museum of Art in New York—rivals had been sucking up hopefully—he extracted preposterous terms. The pictures should always be kept together, preventing any from going to an

exhibition elsewhere; the galleries in which they were to hang should be redesigned to his liking; and they should displace to the fringes the Havemayer bequest, a collection of much higher quality.

In this, as sometimes in the way he used his newspapers, he seemed to show a rich man's contempt for decency. At his behest, for example, the *Philadelphia Inquirer* waged a savage campaign against a Democratic candidate for governor who had criticised a railway merger. It turned out later that Mr Annenberg was the biggest shareholder in one of the companies to be merged. He would order the publication of unfavourable articles, just as he once forbade his television stations to broadcast a documentary on Nixon, because it included an interview with Alger Hiss, a “treasonable spy”. And he would not tolerate any mention at all of some people in the *Inquirer*, among them entertainers such as Dinah Shore, politicians such as Harold Stassen, campaigners such as Ralph Nader, various socialites who had offended him and the entire Philadelphia 76ers basketball team.

To give is indeed better than to receive

Mr Annenberg lived in the traditional style of a tycoon, with private jets and a retinue of servants, but life was not all pleasure. His first marriage ended in divorce, and his son, a schizophrenic, killed himself. Yet what separated him from most of the super-rich was not these sadnesses, nor even that he gave some money away; it was that he gave so much of it away. Thus he became known less as a businessman than as a philanthropist. Moreover, he found that—thanks to his father's nemesis, the tax laws—good works on a vast scale can bring fame without really diminishing fortune. Mr Annenberg did not die a pauper.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Oct 10th 2002
From The Economist print edition

Equities tumbled around the world. The worst-affected stockmarkets were those in the euro area, especially in Germany, where the Xetra DAX index fell by 11.2% over the week. In France, the CAC 40 index declined by 9.7%. In America, the S&P 500 fell by 6.2%. In Japan, the Nikkei 225 fell by 5.6%. Britain's FTSE 100 index fared less badly, but still declined by 4.2%.

Much of the gloom in **Germany** reflects investors' worries about the banks. But there is also increasing concern about the prospects for growth in an economy that accounts for a third of GDP in the euro area. Industrial production in Germany was somewhat stronger in August than expected, but was still 1.4% lower than a year ago. German unemployment remained at 9.8% in September.

In **America**, wages rose by 3% in the year to September. The unemployment rate dropped slightly to 5.6% of the labour force.

In **Britain**, manufacturing output stalled in August, leaving industrial production 3.5% lower over the year. But house prices continue to rise sharply, keeping consumer spending strong as home-owners released wealth through mortgage-equity withdrawal. In the second quarter, this added up to 5.9% of disposable income, the highest level since the boom year of 1988.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Oct 10th 2002
From The Economist print edition

% change on year ago

	GDP 1 qtr*	GDP 1 year	The Economist poll GDP forecasts 2002	The Economist poll GDP forecasts 2003	Industrial production latest	Retail sales (volume) latest	Unemployment % rate latest	Unemployment % rate year ago
Australia	+ 2.4	+ 3.8 Q2	+ 3.8	+ 3.5	+ 2.7 Q2	+ 6.3 Q2	6.2 Sep	6.7
Austria	na	+ 0.4 Q2	+ 0.7	+ 1.9	+ 2.2 Jul	– 0.2 Jun	4.2 Aug	3.6
Belgium	+ 0.8	+ 0.3 Q2	+ 0.6	+ 2.0	+ 3.8 Jul	+ 3.5 Jul	12.0 Sep†	11.7
Britain	+ 2.4	+ 1.3 Q2	+ 1.6	+ 2.7	– 3.5 Aug	+ 5.0 Aug	5.2 Jul‡	5.1
Canada	+ 4.3	+ 3.2 Q2	+ 3.3	+ 3.3	+ 1.3 Jun	+ 5.4 Jul	7.5 Aug	7.3
Denmark	+ 4.4	+ 2.0 Q2	+ 1.7	+ 2.1	– 3.2 Aug	+ 3.4 Aug	5.1 Aug	5.1
France	+ 2.0	+ 1.0 Q2	+ 1.1	+ 2.2	– 1.7 Jul	+ 3.5 Aug	9.0 Aug††	8.7
Germany	+ 1.1	+ 0.1 Q2	+ 0.4	+ 1.6	– 1.4 Aug	– 2.2 Aug	9.8 Sep§	9.4
Italy	+ 0.9	+ 0.2 Q2	+ 0.5	+ 1.9	+ 0.9 Jul	nil Jul	9.0 Jul	9.5
Japan	+ 2.6	– 0.7 Q2	– 0.7	+ 1.0	+ 1.9 Aug	– 4.8 Jul	5.4 Aug	5.0
Netherlands	+ 0.5	nil Q2	+ 0.6	+ 1.8	– 2.0 Aug	+ 3.2 Jul	2.3 Aug**	2.0
Spain	+ 1.8	+ 2.0 Q2	+ 1.9	+ 2.6	– 3.9 Aug	na	11.3 Aug	10.6
Sweden	+ 2.4	+ 2.1 Q2	+ 1.8	+ 2.6	– 1.3 Jun	+ 4.7 Jul	4.1 Aug†	4.3
Switzerland	+ 0.4	– 0.4 Q2	+ 0.3	+ 1.6	– 2.0 Q2	+ 1.7 Jul	2.8 Sep†	1.7
United States	+ 1.3	+ 2.2 Q2	+ 2.4	+ 2.8	+ 0.4 Aug	+ 6.1 Aug	5.6 Sep	5.0
Euro area	+ 1.4	+ 0.6 Q2	+ 0.8	+ 2.0	– 0.5 Jul	+ 1.4 Jul	8.3 Aug	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 8.8	+ 2.5 Q2	na	na	+ 1.4 Aug	+ 3.8 Jun	8.1 Aug†	7.8
Greece	na	+ 4.0 Q2	na	na	+ 1.9 Jul	na	na	na
Iceland	na	+ 3.1 2001	na	na	+ 3.3 2001	na	2.2 Aug†	1.1
Ireland	na	+ 2.9 Q1	na	na	+10.7 Jul	+ 1.4 Jul	4.3 Sep	3.8
Luxembourg	na	+ 3.5 2001	na	na	+ 0.6 Jul	– 6.3 May	2.8 Jul†	2.4
New Zealand	+ 7.1	+ 4.0 Q2	na	na	+ 4.3 Q1	+ 8.3 Q2	5.1 Q2	5.3
Norway	+ 3.1	+ 1.7 Q2	na	na	+ 1.5 Aug	+ 1.7 Aug	3.8 Q2	3.6
Portugal	+ 1.4	+ 1.4 Q1	na	na	– 2.0 Jul	+ 1.9 Aug	4.5 Q2†	3.9

*% change at an annual rate. †Not seasonally adjusted. ‡May-July; claimant count rate 3.1% in Aug. §EU harmonised rate 8.3% in Sep. **Jun-Aug. ††Revised series.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Oct 10th 2002
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2002	2003	latest	year ago	latest	year ago
Australia	+ 2.8 Q2	+ 6.0	+ 2.8	+ 2.5	– 1.1 Q2	+ 5.6	+ 3.7 Q2	+ 4.4
Austria	+ 1.9 Aug	+ 2.5	+ 1.7	+ 1.7	– 0.1 Sep	+ 0.1	+ 2.3 Aug	+ 2.9
Belgium	+ 1.3 Sep	+ 2.3	+ 1.6	+ 1.5	+ 0.8 Aug	– 1.0	+ 2.6 Q2	+ 2.6
Britain	+ 1.4 Aug	+ 2.1	+ 1.9	+ 2.4	+ 0.3 Aug	+ 0.2	+ 4.0 Jul	+ 4.6
Canada	+ 2.6 Aug	+ 2.8	+ 2.0	+ 2.5	+ 0.4 Aug	+ 0.8	+ 3.0 Jul	+ 1.6
Denmark	+ 2.4 Sep	+ 2.3	+ 2.3	+ 2.0	– 0.3 Aug	+ 1.5	+ 3.7 Q2	+ 4.7
France	+ 1.8 Aug	+ 1.9	+ 1.8	+ 1.4	– 0.2 Aug	+ 0.9	+ 3.8 Q2	+ 4.2
Germany	+ 1.0 Sep	+ 2.1	+ 1.4	+ 1.1	– 0.5 Aug	+ 1.5	+ 2.1 Jul	+ 1.7
Italy	+ 2.6 Sep	+ 2.6	+ 2.4	+ 1.9	+ 0.2 Aug	+ 1.2	+ 2.5 Aug	+ 2.5
Japan	– 0.9 Aug	– 0.7	– 0.9	– 0.6	– 0.4 Sep	– 0.3	– 3.4 Aug	– 1.3
Netherlands	+ 3.3 Aug	+ 4.7	+ 3.7	+ 2.4	+ 0.2 Aug	+ 1.8	+ 3.1 Aug	+ 5.0
Spain	+ 3.6 Aug	+ 3.7	+ 3.3	+ 2.6	+ 0.8 Aug	+ 1.6	+ 4.0 Q2	+ 2.9
Sweden	+ 2.0 Aug	+ 3.1	+ 2.3	+ 2.0	– 0.3 Aug	+ 1.5	+ 2.3 Jul	+ 2.6
Switzerland	+ 0.5 Sep	+ 0.7	+ 0.7	+ 1.0	– 1.4 Aug	– 0.2	+ 2.5 2001	+ 1.3
United States	+ 1.8 Aug	+ 2.7	+ 1.6	+ 2.2	– 1.6 Aug	+ 2.0	+ 3.0 Sep	+ 4.1
Euro area	+ 2.2 Sep	+ 2.2	+ 2.2	+ 1.6	– 0.2 Aug	+ 1.7	+ 3.3 Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.4 Aug	+ 2.6	na	na	– 1.8 Aug	– 0.1	+ 3.8 Q2	+ 4.9
Greece	+ 3.5 Sep	+ 3.6	na	na	+ 0.7 Jul	+ 4.5	na	na
Iceland	+ 3.1 Sep	+ 8.4	na	na	+ 6.1 Sep	+ 6.8	+ 6.0 Aug	+ 8.8
Ireland	+ 4.5 Aug	+ 4.6	na	na	– 0.8 Aug	+ 1.0	+ 4.3 Q2	+ 8.5
Luxembourg	+ 1.8 Aug	+ 2.8	na	na	– 1.0 Jul	+ 0.6	– 1.7 Jul	+ 5.7
New Zealand	+ 2.8 Q2	+ 3.2	na	na	+ 1.5 Q2	+ 8.1	+ 2.1 Q2	+ 1.8
Norway	+ 1.4 Aug	+ 2.7	na	na	– 8.6 Aug	– 4.3	+ 4.9 Q2	+ 4.4
Portugal	+ 3.7 Aug	+ 4.0	na	na	– 1.8 Aug	– 0.2	– 0.2 Jun	– 0.6

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Portfolio poll

Oct 10th 2002
From The Economist print edition

Portfolio poll

3rd quarter 2002

	Holdings by instrument, %			Equity holdings by area, %						
	Equities	Bonds	Cash	United States	Other Americas	Britain	Euro area	Other Europe	Japan	Other Asia
Robeco Group	53	47	0	57 ▲	2	12 ▲	13 ▼	5	7 ▼	4
Julius Baer PB	40 ▲	47 ▼	13† ▼	45	8	7	16	8	8	8
Commerz Int. CM	55 ▼	45 ▲	0	54 ▲	1	12 ▲	17 ▼	4 ▲	8 ▼	4 ▲
Credit Suisse PB	28 ▼	38 ▲	34† ▲	59 ▲	0	9 ▼	14 ▼	4	5 ▼	9 ▲
Lehman Brothers	70	30	0	38 ▲	0	13 ▲	26 ▼	5 ▼	14	4 ▼
Standard Life	55	45	0	57 ▲	0	12	14 ▼	5 ▲	9	3 ▼
Daiwa IR	60	34	6	53 ▲	2 ▲	11 ▲	18 ▼	5 ▲	8 ▼	3
Average	52 ▼	41 ▲	7 ▲	52 ▲	2	11 ▲	17 ▼	5	8 ▼	5
Neutral*				56 ▲	2 ▼	11	13 ▼	5	10 ▲	3

	Bond holdings by currency, %				
	Dollar	Yen	Sterling	Euro-zone	Others
Robeco Group	31 ▲	19	5	36 ▼	9 ▲
Julius Baer PB	88	0	0†	7	5
Commerz Int. CM	53 ▲	16	14 ▼	9 ▼	8 ▲
Credit Suisse PB	84 ▲	0	0†	16 ▼	0
Lehman Brothers	47	18	4	28	3
Standard Life	26 ▲	29	6 ▲	39	0 ▼
Daiwa IR	32 ▲	14	6	43 ▼	5 ▲
Average	52 ▲	14	5	25 ▼	4 ▲
Neutral*	24 ▲	29	5	37 ▼	5

▼▲ A change of 5% points or more on last quarter

▼▲ A change of less than 5% points on last quarter

*Morgan Stanley Capital International (developed) world equity index; Salomon Brothers world government-bond index

†Of which 8% invested in alternative investments

‡Of which 20% invested in alternative investments

In the second quarter, all but one of the fund managers in our poll were pulling money out of American shares; in the third, all but one are returning to the fold. But they remain cautious, in most cases lifting their allocation to American equities by only a couple of percentage points. The clear loser from the shift is the euro area. Overall, holdings of equities have stabilised; there has been little switching between shares, bonds and cash. One notable exception is Credit Suisse Private Banking, which cut equities in its portfolio by 12 percentage points, in favour of cash and alternative investments. The poll suggests that the dollar will hold its ground. Most of our investors are increasing their dollar-denominated bonds, as well as their holdings of American equities.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Oct 10th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Oct 9th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 4.2	+ 8.8	Aug	4.89	4.38	4.87	5.57	5.40	6.75
Britain	+ 8.6	+ 5.8	Aug	3.91	4.41	3.58	4.41	4.77	5.67
Canada	+16.2	+ 7.3	Aug	2.81	2.98	3.34	4.95	5.32	6.88
Denmark	+ 6.3	+ 7.0	Aug	3.45	4.00	3.43	4.47	4.85	6.86
Japan	+31.5	+ 3.5	Aug	0.02	0.01	0.00	1.14	1.39	1.23
Sweden	+ 2.2	+ 4.2	Jun	4.03	3.71	4.06	4.82	5.19	4.70
Switzerland	+12.0	+ 5.8	Aug	0.76	2.12	1.08	2.52	3.05	3.98
United States	+ 3.2	+ 8.3	Aug	1.68	2.30	1.68	3.58	4.59	6.23
Euro area†	+ 7.8	+ 7.0	Aug	3.23	3.62	3.01	4.25	4.63	5.34

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.72%, Japan No.242 1.15%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.002%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Oct 10th 2002
From The Economist print edition

1995=100

	Oct 1st	Oct 8th*	% change on one month	% change on one year
Dollar index				
All items	74.5	74.3	– 2.8	+17.5
Food	79.5	79.4	– 3.1	+21.5
Industrials				
All	67.8	67.4	– 2.4	+11.6
Nfa†	71.7	70.9	– 0.5	+22.4
Metals	64.5	64.5	– 4.0	+ 3.2
Sterling index				
All items	74.9	75.3	– 3.1	+10.7
Euro index				
All items	99.5	99.8	– 3.3	+10.3
Yen index				
All items	97.2	98.2	+ 0.8	+21.6
Gold				
$ per oz	321.40	319.60	+ 0.4	+10.5
West Texas Intermediate				
$ per barrel	30.77	29.46	– 0.6	+31.0

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Oct 10th 2002
From The Economist print edition

Market indices

	Oct 9th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	2,869.5	3,440.0	2,869.5	– 2.8	–16.6	–14.6	– 8.4
Austria (ATX)	1,003.8	1,357.2	1,003.8	– 6.9	–42.2	–12.0	– 2.4
Belgium (Bel 20)	1,773.7	2,899.8	1,773.7	– 9.0	–51.8	–36.2	–29.3
Britain (FTSE 100)	3,742.4	5,323.8	3,671.1	– 4.2	–46.0	–28.3	–23.2
Canada (Toronto Composite)	5,695.3	7,958.1	5,695.3	– 6.6	–50.0	–25.9	–25.8
Denmark (KBX)	156.6	233.4	156.6	– 3.5	–48.1	–30.3	–22.7
France (SBF 250)	1,794.5	3,081.9	1,794.5	– 8.7	–59.1	–39.8	–33.3
(CAC 40)	2,656.5	4,688.0	2,656.5	– 9.7	–61.6	–42.6	–36.3
Germany (Xetra DAX)	2,597.9	5,462.6	2,597.9	–11.2	–67.8	–49.7	–44.2
Italy (BCI)	974.4	1,513.0	974.4	– 5.1	–55.4	–32.0	–24.7
Japan (Nikkei 225)	8,539.3	11,979.9	8,539.3	– 5.6	–78.1	–19.0	–14.2
(Topix)	844.3	1,139.4	844.3	– 5.5	–70.7	–18.2	–13.3
Netherlands (AEX)	291.4	531.2	291.4	– 8.2	–58.5	–42.5	–36.3
Spain (Madrid SE)	568.5	848.1	568.5	– 4.2	–50.4	–31.0	–23.6
Sweden (Affarsvarlden Gen)	122.7	236.8	122.7	– 8.3	–69.3	–47.0	–40.1
Switzerland (Swiss Market)	4,435.0	6,694.1	4,435.0	– 8.5	–47.3	–30.9	–22.7
United States (DJIA)	7,286.8	10,635.3	7,286.8	– 6.0	–37.8	–27.3	–27.3
(S&P 500)	776.8	1,172.5	776.8	– 6.2	–49.1	–32.3	–32.3
(NASDAQ Comp)	1,114.1	2,059.4	1,114.1	– 6.2	–77.9	–42.9	–42.9
Europe (FTSE Eurotop 300)*	797.2	1,279.7	797.2	– 7.0	–53.2	–36.8	–29.9
Euro area (FTSE Ebloc 100)*	639.4	1,125.1	639.4	– 8.6	–58.8	–42.5	–36.3
World (MSCI)†	727.6	1,024.4	713.6	– 3.0	–49.8	na	–27.5
World bond market (Salomon)‡	499.1	504.2	430.3	+ 0.2	– 1.0	na	+13.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Oct 10th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† Oct 9th	Exchange rate trade-weighted† year ago	Currency units per $ Oct 9th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	− 1.7 Aug	− 11.6 Q2	− 3.7	− 3.8	73.8	69.5	1.82	1.99	2.84	1.80	1.47	0.1
Austria	− 1.4 Jun	− 0.9 Jul	− 1.6	− 1.7	na	100.3	1.01	1.10	1.58	–	0.82	-0.3
Belgium	+ 14.7 Jul	+ 12.5 Jun§	+ 5.0	+ 5.1	na	99.3	1.01	1.10	1.58	–	0.82	nil
Britain	− 44.2 Aug	− 25.8 Q2	− 2.1	− 2.0	106.3	105.2	0.64	0.69	–	0.63	0.52	-0.8
Canada	+ 34.3 Jul	+ 12.1 Q2	+ 2.0	+ 2.2	74.7	76.5	1.59	1.57	2.48	1.57	1.29	1.0
Denmark	+ 7.1 Jul	+ 3.3 Jul	+ 2.2	+ 2.0	103.2	103.0	7.53	8.16	11.7	7.43	6.09	2.2
France	+ 10.2 Jul	+ 27.3 Jul	+ 1.7	+ 1.6	na	101.9	1.01	1.10	1.58	–	0.82	-2.0
Germany	+106.6 Aug	+ 31.9 Aug	+ 1.4	+ 1.1	na	98.9	1.01	1.10	1.58	–	0.82	-2.8
Italy	+ 10.6 Jul	− 3.2 Jun	nil	− 0.1	na	72.7	1.01	1.10	1.58	–	0.82	-1.4
Japan	+ 86.5 Aug	+114.0 Aug	+ 2.8	+ 2.8	130.7	139.3	124	120	193	122	–	-8.0
Netherlands	+ 25.0 Jul	+ 2.7 Q2	+ 3.5	+ 3.6	na	98.2	1.01	1.10	1.58	–	0.82	0.1
Spain	− 36.7 Jul	− 15.3 Jun	− 1.9	− 1.6	na	74.4	1.01	1.10	1.58	–	0.82	-0.3
Sweden	+ 14.6 Aug	+ 8.1 Jul	+ 3.3	+ 3.4	77.3	72.7	9.29	10.6	14.5	9.17	7.51	2.1
Switzerland	+ 3.5 Aug	+ 22.7 Q2	+10.1	+10.3	114.7	111.6	1.48	1.63	2.31	1.46	1.20	na
United States	−438.5 Jul	−428.8 Q2	− 4.7	− 4.9	114.9	117.7	–	–	1.56	0.99	0.81	-1.0
Euro area	+ 83.3 Jul	+ 27.5 Jul	+ 0.5	+ 0.6	82.2	79.5	1.01	1.10	1.58	–	0.82	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.7 Jul	+ 8.7 Jul	na	na	na	79.0	1.01	1.10	1.57	–	0.82	3.2
Greece	− 19.4 Jun	− 7.8 Jul	na	na	na	57.6	1.01	1.10	1.57	–	0.82	0.4
Iceland	+ 0.2 Aug	− 0.1 Q2	na	na	na	na	87.1	101.3	136	86.0	70.4	-0.5
Ireland	+ 34.0 Jul	− 0.4 Q1	na	na	na	87.9	1.01	1.10	1.57	–	0.82	0.1
Luxembourg	− 2.9 Jul	+ 1.7 Q1	na	na	na	99.3	1.01	1.10	1.57	–	0.82	2.2
New Zealand	− 0.1 Aug	− 1.3 Q2	na	na	88.4	78.4	2.08	2.42	3.24	2.05	1.68	0.1
Norway	+ 24.5 Aug	+ 25.5 Jul	na	na	106.7	96.9	7.39	8.77	11.5	7.29	5.97	14.0
Portugal	− 12.8 Jul	− 9.4 Jul	na	na	na	89.6	1.01	1.10	1.57	–	0.82	-2.4

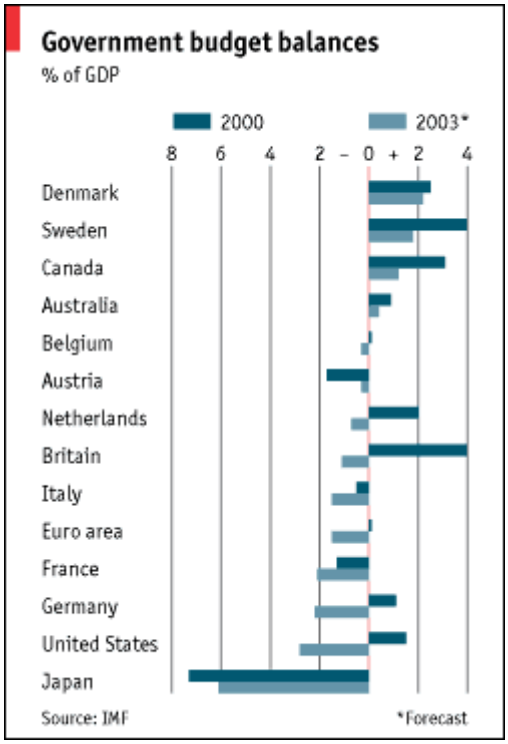
*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast. §New series.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Government budget balances

Oct 10th 2002
From The Economist print edition



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Oct 10th 2002
From The Economist print edition

Emerging **stockmarkets** have held up better than their more developed brethren this year. Share prices in emerging markets have seen an average loss of 15% in dollar terms since January, half the average decline in rich countries. Markets in Thailand, Indonesia, the Czech Republic and Russia have all enjoyed double-digit dollar gains.

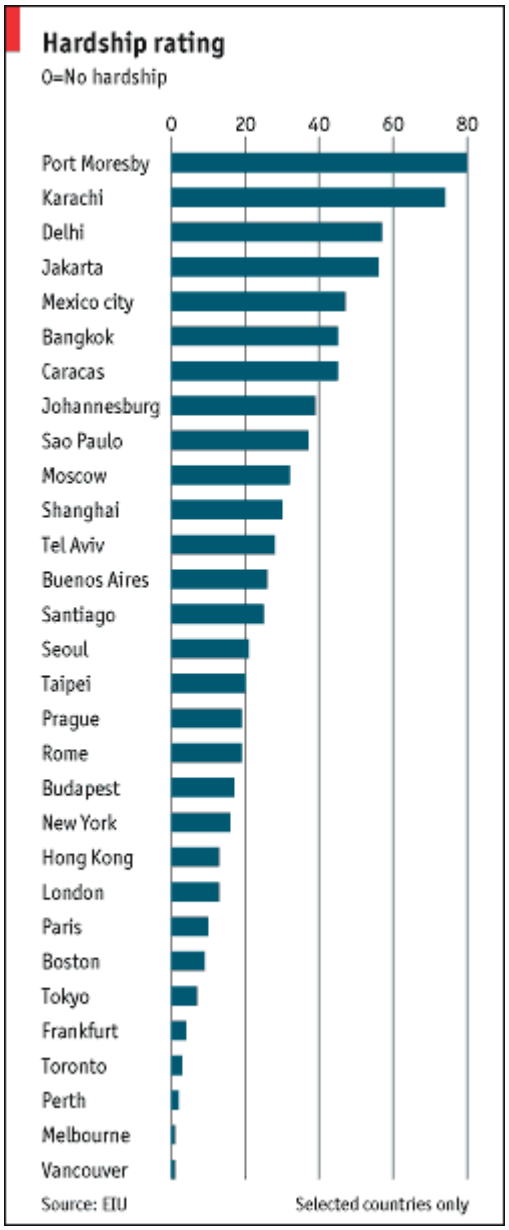
Taiwan's consumer prices fell by 0.7% in the 12 months to September. A year ago, Argentina also had deflation, but prices have surged by 38.5% over the past year.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Hardship rating

Oct 10th 2002
From The Economist print edition

Port Moresby, capital of Papua New Guinea, is the worst place in the world for foreigners to live in, according to a new "hardship rating" published by the Economist Intelligence Unit, a sister organisation of *The Economist*. The EIU's index is based on three categories: health and safety, culture and environment, and infrastructure. A rating over 20% indicates hardship; one above 65%, extreme hardship.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Oct 10th 2002
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.0	Q2	+12.7	Aug	– 0.7	Aug	+29.1	Aug	+17.4	2001	250.5	Jul
Hong Kong	+ 0.5	Q2	–11.2	Q2	– 3.3	Aug	– 8.4	Aug	+15.7	Q2	111.2	Sep
India	+ 6.0	Q2	+ 6.4	Jul	+ 3.9	Aug	– 5.1	Aug	+ 2.0	Q2	59.5	Sep
Indonesia	+ 3.5	Q2	–13.8	Q1	+10.1	Sep	+26.6	Aug	+ 6.1	Q1	29.3	Aug
Malaysia	+ 3.8	Q2	+ 5.9	Aug	+ 2.1	Aug	+12.8	Aug	+ 6.9	Q2	33.0	Aug
Philippines	+ 4.5	Q2	+ 6.4	Jul	+ 2.9	Sep	+ 2.8	Jul	+ 6.3	Jun	13.2	Sep
Singapore	+ 3.9	Q2	+15.8	Aug	– 0.4	Aug	+ 6.9	Aug	+17.5	Q2	80.7	Sep
South Korea	+ 6.3	Q2	+ 8.5	Aug	+ 3.1	Sep	+ 9.9	Sep	+ 5.5	Aug	116.5	Aug
Taiwan	+ 3.0	Q2	+ 5.8	Aug	– 0.7	Sep	+18.2	Sep	+24.8	Q2	156.4	Aug
Thailand	+ 5.1	Q2	+11.4	Aug	+ 0.4	Sep	+ 3.4	Aug	+ 6.3	Aug	37.7	Aug
Argentina	–13.6	Q2	– 9.2	Aug	+38.5	Sep	+14.1	Aug	+ 3.9	Q2	9.2	Aug
Brazil	+ 1.0	Q2	+ 0.9	Aug	+ 7.5	Aug	+ 9.9	Sep	–15.2	Aug	37.6	Aug
Chile	+ 1.7	Q2	– 1.0	Aug	+ 2.3	Sep	+ 2.4	Aug	– 0.6	Q2	14.9	Aug
Colombia	+ 2.2	Q2	+ 2.7	Jul	+ 6.0	Sep	+ 0.5	Jul	– 1.4	Q1	10.6	Aug
Mexico	+ 2.1	Q2	+ 1.9	Jul	+ 5.3	Aug	– 9.0	Aug	–16.3	Q2	46.5	Aug
Peru	+ 3.8	Aug	+ 6.8	Jul	+ 0.7	Sep	+ 0.2	Jul	– 1.0	Q2	9.5	Aug
Venezuela	– 9.9	Q2	– 6.6	Jul	+28.2	Sep	+ 8.5	Q2	+ 1.9	Q2	8.2	Jul
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.7	Aug	– 7.9	Jun	nil	Q2	13.0	Jun
Israel	– 1.7	Q2	– 1.8	Jul	+ 6.2	Aug	– 6.1	Aug	– 2.3	Q1	24.6	Sep
South Africa	+ 2.2	Q2	+ 8.2	Aug	+11.6	Aug	+ 3.4	Aug	– 0.3	Q2	6.0	Aug
Turkey	+ 8.2	Q2	+ 7.2	Aug	+37.0	Sep	–10.9	Jul	+ 1.5	Jul	25.1	Aug
Czech Republic	+ 2.5	Q2	– 2.8	Aug	+ 0.8	Sep	– 2.3	Aug	– 2.3	Q2	22.3	Sep
Hungary	+ 3.1	Q2	– 0.9	Aug	+ 4.5	Aug	– 2.6	Aug	– 2.4	Aug	10.3	Aug
Poland	+ 0.8	Q2	– 1.1	Aug	+ 1.2	Aug	–10.3	Aug	– 6.4	Aug	28.2	Sep
Russia	+ 4.1	Q2	+ 3.4	Aug	+15.0	Sep	+42.4	Jul	+28.3	Q2	41.9	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 2.8	May	+ 3.7	Aug	– 1.1	Sep	+ 2.7	2002†	4.8	Jun
Saudi Arabia	+ 1.2	2001	na		– 0.2	Apr	+44.1	2001	+14.5	2001	17.7	Aug

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Oct 10th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 9th		Dec 31st 2001	
	Oct 9th	year ago	Oct 9th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.9	na	1,602.3	– 2.9	– 6.4	– 6.4
Hong Kong	7.80	7.80	12.2	1.94	8,977.4	– 1.4	– 21.2	– 21.3
India	48.3	48.0	75.2	5.76	2,956.9	– 0.1	– 9.4	– 9.5
Indonesia	8,997	9,985	14,018	14.05	391.8	– 4.3	– 0.1	+ 15.5
Malaysia	3.80	3.80	5.92	3.20	641.5	– 0.8	– 7.8	– 7.8
Philippines	52.7	51.8	82.1	6.63	1,081.3	– 3.0	– 7.4	– 9.3
Singapore	1.79	1.81	2.78	1.31	1,376.6	+ 1.6	– 15.2	– 12.3
South Korea	1,242	1,303	1,935	4.87	619.9	– 4.3	– 10.6	– 5.5
Taiwan	35.1	34.6	54.6	2.10	3,947.6	– 5.4	– 28.9	– 29.0
Thailand	43.6	44.8	68.0	1.94	338.4	+ 0.9	+ 11.4	+ 12.9
Argentina	3.72	1.00	5.80	22.90	396.6	+ 1.2	+ 34.3	– 63.9
Brazil	3.88	2.77	6.05	17.90	8,714.9	– 1.2	– 35.8	– 61.8
Chile	751	715	1,171	2.76	4,597.3	– 2.1	– 14.8	– 25.0
Colombia	2,853	2,325	4,446	7.91	1,296.8	+ 3.3	+ 21.1	– 3.3
Mexico	10.20	9.40	15.9	7.89	5,762.4	– 1.1	– 9.6	– 18.7
Peru	3.62	3.47	5.65	5.79	1,146.4	– 0.7	– 2.5	– 7.3
Venezuela	1,492	743	2,324	29.91	7,591.7	+ 1.4	+ 15.5	– 41.3
Egypt	4.63	4.25	7.22	6.97	5,271.4	– 0.0	– 0.0	– 1.3
Israel	4.84	4.33	7.54	6.40	325.9	– 2.9	– 27.1	– 33.5
South Africa	10.5	9.22	16.3	13.55	9,190.9	– 3.6	– 12.0	+ 0.8
Turkey	1,647,500	1,641,000	2,567,135	42.00	9,145.6	+ 1.6	– 33.6	– 41.4
Czech Republic	31.0	36.9	48.3	2.85	406.9	– 7.7	+ 3.1	+ 18.3
Hungary	249	281	387	9.70	6,691.4	– 3.7	– 6.2	+ 3.7
Poland	4.15	4.14	6.47	7.65	12,742.1	– 0.2	– 8.5	– 12.9
Russia	31.7	29.5	49.4	21.00	348.5‡	+ 2.1	+ 39.2	+ 34.0
EMF (MSCI)*	1.00	1.00	1.56	na	259.4	– 3.8	na	– 15.0
EMBI+†	1.00	1.00	1.56	na	202.5	– 0.7	na	+ 1.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.